# The **Economist**

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Obama the warrior

Misgoverning Argentina

The economic shift from West to East Genetically modified crops blossom

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On the cover The data deluge and how to handle it: leader, page 11. Information has gone from scarce to superabundant. That brings huge new benefits, says Kenneth Cukier-but also big headaches. See our special report after page 52

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# The world this week

# **Politics**

Barack Obama unveiled a document that he hopes will form the basis of the Demo-crats' final health-care bill ahead of a televised bipartisan summit. It contains many of the proposals in the Senate version of the bill, but would cost more (\$950 billion) and also set up a panel that could block steep increases in insurance premiums, such as the recently announced 39% rise to some insurance-plan paye ments in California.

A few green shoots of bipartisanship were spotted on Capitol Hill. Ron Wyden, a Democrat, and Judd Gregg, a Republican, introduced a bill that would reduce the top rate of corporate income tax to 24% and end some special tax breaks for companies. And the Senate passed a (much watered-down) jobs bill with the support of 13 Republicans. This came several days after Mr Obama appointed a bipartisan commission on the deficit, albeit with not many powers.

The Justice Department released documents from its lengthy inquiry into the ethics of advice given to the Bush administration regarding the interrogation of terrorism suspects, John Yoo and Jay Bybee, two former lawyers at the department who justified the use of waterboarding (simulated drowning), were cleared of professional misconduct, but were criticised for their legal reasoning.

A 25-year-old Afghan immigrant who used to work at Denver airport pleaded guilty, in a civilian court hearing, to plotting to bomb the New York subway last year.

# Kemalist kerfuffle

In the latest skirmish between Turkey's government, led by the mildly Islamist ak party, and its secular armed forces, dozens of officers were arrested on suspicion of plotting a coup. Around half of them, including several admirals and generals, were charged.

The coalition government in the Netherlands collapsed following a row over the deployment of Dutch troops in Afghanistan. An election was scheduled for June 9th.



Greece came to a standstill and demonstrators clashed with police during a 24-hour general strike over planned austerity measures to reduce the deficit. There were warnings of further downgrades to Greece's sovereign deby

Viktor Yanukovich was inaugurated as Ukraine's president. He said he planned to visit Brussels shortly afterwards, a possible sign that his presidency will be more friendly towards the European Union, and maybe less so towards Moscow, than some had expected.

Less than three weeks after unionist and republican leaders in Northern Ireland reached a power-sharing deal, a large car-bomb exploded outside a courthouse in the town of Newry. No one was injured.

Flash floods on the Portuguese Atlantic island of Madeira killed at least 42 people.

### Two for the price of one

Nigeria's ailing president, Umaru Yar'Adua, flew back home after three months in a Saudi clinic. Only two weeks ago his vice-president, Goodluck Jonathan, had formally been given presidential powers, albeit temporarily. A power struegle may vet ensue.

Iran arrested Abdolmalek Rigi, the leader of Jundullah, a Sunni group that draws on Baluchi support in the southeast and which has been blamed for a string of terrorist attacks. The Iranians, who have accused the group of links both to al-Qaeda and to the West, say they have photographs proving that Mr Rigi was at an American base in Afghanistan.

Sudan's government agreed to a ceasefire with one of the main rebel groups in Darfur, the Justice and Equality Movement, raising hope for a wider agreement to end seven years of conflict in Sudan's western region. But several other rebel groups vowed to carry on the struggle.

# Centralising tendencies Foreign diplomats in Afghani-

stan expressed concern at the reform of an electoral-complaints commission made by President Hamid Karzai, which gives him the power to appoint all its members. The commission thwarted Mr Karzai's first-round election victory last August, by ruling that nearly un votes were fraudulent.



General Stanley McChrystal, the commander of NaTO's forces in Afghanistan, apologised on national television for an air strike in which as many as 27 civilians were killed on the northern edge of Uruzgan province, which borders Helmand. The government in Kabul described the attack as "unjustifiable".

India and Pakistan held their first formal meeting since the terrorist onslaught on Mumbai in November 2008. On the eve of the talks in Delhi, the two countries traded allegations over shooting in the disputed territory of Kashmit. India said its border guards came under fire from Pakistan.

Bangladesh's army was deployed in the Chittagong Hill Tracts in the south-east of the country after the worst violence in the area since a peace deal was signed in 1997. At least five people have been killed in clashes between Bengali set thers and local tribal people.

# An ever louder voice



Meeting in the Mexican resort of Playa del Carmen, the leaders of 32 countries in Latin America and the Caribbean agreed to set up a new regional body. When it is created, either next year or in 2012, it will be a rival to the Organisation of American States, in which the United States and Canada, but not Cuba, take part. The leaders also expressed their support for Argentina's claim to sovereignty over the Falkland (or Malvinas) Islands, which has been reignited by the arrival of an oil exploration rig in the islands.

In Cuba, Orlando Zapata, a political prisoner, died in hospital after a lengthy hunger strike in protest at poor prison conditions. Mr Zapata was arrested in 2005, during a crackdown against democracy activists on the island. Cuba's president, Raúl Castro, said he regretted the death but denied that prisoners suffered torture.

Brazilis governing Workers' Party endorsed Dilma Rousseff as its candidate in October's presidential election. Ms Rousseff is President Luiz Indicio Luid as Biuva's chief of staff and was hand-picked by him as his successor. She has pledged to continue Luia's pragmatic economic policy, but at the party convention Lula said that she should not be afraid to extend the state's remit in the economy.

# Business

Executives from Toyota faced tough questioning at a congressional hearing into its recall of millions of vehicles. Akio Toyoda, the carmaker's embattled president, attended the proceedings after initially saying he wouldn't. He apologised for the safety lapses and said Toyota had "pursued growth over the speed at which we were able to develop". Earlier, some of Toyota's American workers and car dealers rallied in support of the company.

# Hummer horror

General Motors decided to phase out the Hummer after the Chinese government declined to approve on's deal to sell the brand to a Chinese company. Adapted from a military design for the civilian market, the Hummer came to symbolise the ultimate gas-symbolise the ultimate gas-guzzler. One study found that Hummer drivers picked up five times as many traffic tickets as the average motorist.

Ben Bernanke dampened market speculation about the prospect of an increase to the Federal Reserve's key federal funds interest rate when he said it would stay low for several months. The central bank recently lifted the discount rate it charges banks on emergency loans by a quarter of a percentage point, to 0.75%.

Royal Bank of Scotland announced a pre-tax loss of £s billion (\$2x billion) for 2009. The results were boosted by a £2.1 billion pension related gain and a £3.8 billion gain on restructuring its own debt. The bank, which is still to pay back its bail-out money awarded bonuses to its staff, though Rss's chief executive decided to forgo his, as have the bosses of other big British banks.

A report on pay at Wall Street firms found that bonuses rose by 17% last year, to \$20.3 billion. Compensation at Goldman Sachs, Morgan Stanley and JPMorgan Chase rose by 31%. Wall Street accounts for 24% of total wages paid in New York City, though it employs just 5% of its workers.

Commerzbank reported a quarterly net loss of £1.9 bill lion (\$2.8 billion), after it booked surprise write-downs stemming from bond insurers and generally weak trading conditions. Deutsche Bank, Commerzbank's larger rival, recently posted a net profit of £3.5 billion.

A judge finally approved a settlement between the Securities and Exchange Commission and Bank of America over allegations that nof, misled shareholders about its takeover of Merrill lynch. In what has been an awkward case for the regulator, the sec's previous agreement was tossed out by the same judge last year. In his final ruling, he criticised the new deal as "half-baked justice at best".

Google revealed that the European Union's antitrust regulator had opened a preliminary inquiry into whether its search engine and advertising practices discriminated against competitors. The investigation comes in response to complaints lodged by three internet companies, including one owned by Microsoft.

### Corporate responsibility? Three Google executives.

inted toogle seeculeves, including a former chief financial officer, were given six-month suspended sentences in Italy for allowing a clip of an autistic boy being bullled to be viewed on Google Video, which the judge said broke Italy's privacy laws. The case could have ramifications for Google's European You-Tube sites. Google described the ruling as "astonishing".

Dai-ichi, a Japanese life insurer, took steps to float on the Tokyo stockmarket. It hopes to raise ¥LO7 trillion (\$117 billion) in the biggest initial public offering in Japan since 1998.

Schlumberger strengthened its hand in the oil-services industry when it agreed to buy Smith International, a rival, in a transaction worth around \$12.a, billion. Schlumberger benefits from Smith's dill-making skills, as energy companies look for ever-deeper oil deposits and hard-to-extract shall-gas reserves.

The IMF reiterated its view that "for most advanced countries" stimulus programmes should be maintained in 2010 and begin to be unwound in 2011 "if developments proceed as expected". In Britain, this was

taken by some as evidence that it is too soon to cut public spending, a central issue in the forthcoming election.

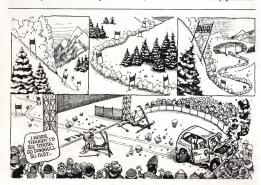


dence fell sharply in February, raising fresh fears about the fragility of the recovery. Separately, economic confidence in the euro area unexpectedly worsened as well.

# Cabin pressure

It was a bad week for Europe's airline industry. Pilots at Lufthansa walked out for a day and then called off their strike, but not soon enough to prevent disruption at the German carrier. A strike by air-traffic controllers in France led to flight cancell ations. And British Airways cabin crew voted (again) to take industrial action, though no date was set.

Other economic data and news can be found on pages 101-102



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November 2009



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November 2009



USD 2.875.000.000

Convertible Bond Offering Joint Booksunner

November 2009



USD 600,000,000

Qualified Institutional Placement of Ordinary Shares Book Running Lead Manage

November 2009



EUR 4,427,000,000 Rights Issue and Secondary Self-dov Co-Books inner

October 2009



EUR 218,000 000 Convertible Bond Offering

October 2009



EUR 451.100.000 Rights Issue Joint Bookrunner

September 2009



USD 1.868,800,000 Follow-On Offering Joint Books inner

September 2009



EUR 338,300,000 Rights Issue

September 2009



EUR 1.000.000.000 Accelerated Bookbuilt Offering Joint Books upper

August 2009



NOK 4.517.000.000 Joint Bookrunner and Joint Lead Manager

July 2009



AUD 4.244.000.000 Rights Issue Joint Bookrunner

July 2009



AUD 2.350.000.000 Placement and Rights Issue Joint Lead Manager and Undarwriter



EUR 575,000,141 Convertible Bond Offering Joint Bookrunner and Joint Lead Manager

April 2009



USD 862,500,000 Convertible Bond Offering

USD 692,070,000 27.140,000 Common Shares (Follow-On Offering)

Joint Lead Manager April 2009



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# Global Banking & Markets



# The data deluge

Businesses, governments and society are only starting to tap its vast potential



EIGHTEEN months ago, Li & Fung, a firm that manages supply chains for retailers, saw 100 gigabytes of information flow through its network each day. Now the amount has increased tenfold. During 2009. American drone aircraft flying

over Iraq and Afghanistan sent back around 24 years' worth of video footage. New models being deployed this year will produce ten times as many data streams as their predecessors, and those in 2011 will produce 30 times as many

Everywhere you look, the quantity of information in the world is soaring. According to one estimate, mankind created 150 exabytes (billion gigabytes) of data in 2005. This year, it will create 1,200 exabytes. Merely keeping up with this flood, and storing the bits that might be useful, is difficult enough. Analysing it, to spot patterns and extract useful information, is harder still. Even so, the data deluge is already starting to transform business, government, science and everyday life (see our special report in this issue). It has great potential for good-as long as consumers, companies and governments make the right choices about when to restrict the flow of data, and when to encourage it.

# Plucking the diamond from the waste

A few industries have led the way in their ability to gather and exploit data. Credit-card companies monitor every purchase and can identify fraudulent ones with a high degree of accuracy, using rules derived by crunching through billions of transactions. Stolen credit cards are more likely to be used to buy hard liquor than wine, for example, because it is easier to fence. Insurance firms are also good at combining clues to spot suspicious claims: fraudulent claims are more likely to be made on a Monday than a Tuesday, since policyholders who stage accidents tend to assemble friends as false witnesses over the weekend. By combining many such rules, it is possible to work out which cards are likeliest to have been stolen, and which claims are dodgy.

Mobile-phone operators, meanwhile, analyse subscribers' calling patterns to determine, for example, whether most of their frequent contacts are on a rival network. If that rival network is offering an attractive promotion that might cause the subscriber to defect, he or she can then be offered an incentive to stay. Older industries crunch data with just as much enthusiasm as new ones these days. Retailers, offline as well as online, are masters of data mining (or "business intelligence", as it is now known). By analysing "basket data", supermarkets can tailor promotions to particular customers' preferences. The oil industry uses supercomputers to trawl seismic data before drilling wells. And astronomers are just as likely to point a software query-tool at a digital sky survey as to point a telescope at the stars.

There's much further to go. Despite years of effort, law-enforcement and intelligence agencies' databases are not, by and large, linked. In health care, the digitisation of records would

make it much easier to spot and monitor health trends and evaluate the effectiveness of different treatments. But largescale efforts to computerise health records tend to run into bureaucratic, technical and ethical problems. Online advertising is already far more accurately targeted than the offline sort, but there is scope for even greater personalisation. Advertisers would then be willing to pay more, which would in turn mean that consumers prepared to opt into such things could be offered a richer and broader range of free online services. And governments are belatedly coming around to the idea of putting more information-such as crime figures, maps, details of government contracts or statistics about the performance of public services-into the public domain. People can then reuse this information in novel ways to build businesses and hold elected officials to account. Companies that grasp these new opportunities, or provide the tools for others to do so, will prosper. Business intelligence is one of the fastest-growing parts of the software industry.

# Now for the had news

But the data deluge also poses risks. Examples abound of datahases being stolen; disks full of social-security datago missing. laptops loaded with tax records are left in taxis, credit-card numbers are stolen from online retailers. The result is privacy breaches, identity theft and fraud. Privacy infringements are also possible even without such foul play: witness the periodic fusses when Facebook or Google unexpectedly change the privacy settings on their online social networks, causing members to reveal personal information unwittingly. A more sinister threat comes from Big Brotherishness of various kinds, particularly when governments compel companies to hand over personal information about their customers. Rather than owning and controlling their own personal data, people very often find that they have lost control of it.

The best way to deal with these drawbacks of the data deluge is, paradoxically, to make more data available in the right way, by requiring greater transparency in several areas. First, users should be given greater access to and control over the information held about them, including whom it is shared with. Google allows users to see what information it holds about them, and lets them delete their search histories or modify the targeting of advertising, for example. Second, organisations should be required to disclose details of security breaches, as is already the case in some parts of the world, to encourage bosses to take information security more seriously. Third, organisations should be subject to an annual security audit, with the resulting grade made public (though details of any problems exposed would not be). This would encourage companies to keep their security measures up to date.

Market incentives will then come into play as organisations that manage data well are favoured over those that do not. Greater transparency in these three areas would improve security and give people more control over their data without the need for intricate regulation that could stifle innovation. After all, the process of learning to cope with the data deluge, and working out how best to tap it, has only just begun.

# The beef in Buenos Aires

# The Kirchners could have more oil if they stopped bullying Argentine business



NCE again an unpopular Argentine government is making aggressive noises towards the Falkland Islands. In 1982 the country's military dictators gambled that grabbing the islands, a far-flung relic of the British empire, by military inva-

sion would allow them to cling to power on a wave of popular acdaim. Fortunately for the islanders the junta was defeated by Margaert Hatcher's dispatch of a task-force thoughit was far closer-run thing than she would ever acknowledge and cost \$60 Argentine and 260 British lives). The conflict had a si-ver lining for Argentina, in the form of its swift return to democracy. Now an elected, but unpopular, president, Cristina Fernández de Kirchner, is working herself into a nationalist frenzy over the arrival of an oil rig.

Seismic studies of the islands suggest there may be a lot of oil and gas beneath waters that Argentina has always claimed as its own. Ms Fernánder's government pledges to prevent their discovery and development, and has restricted the use of Argentine ports and waters by island shipping. Argentina wisely insists that it will not resort to military action fin contrast to 1985, the Falklands are now well-garrisoned whereas its own armed forces have shrunk). Instead it is counting on regional solidarity and diplomatic pressure. This week it won the support of a summit of the leaders of 32 countries from Latin America and the Caribbean.

Almost every Argentine and most Latin Americans believe that in geography, history and international law the islands they call the Malvinas belong to Argentina. Striain ousted a small group of Argentine settlers in 1833. British ownership is indeed an anomaly-but the world is full of them. If the clock is to be turned back to 1833, southern Argentina should be an

independent country under indigenous leadership and the Brazilian state of Acre should revert to Bolivia. For Britain, upholding the right of the Falklanders to self-determination is paramount. And that is the stronger argument.

What the Kirchners should learn from their neighbours

The irony in Ms Fernández's stance is that a big oil-strike could very well be taking place in Argentina, or its inshore waters. were her government and that of her husband and predecessor, Néstor Kirchner, not so hostile to private initiative in the energy industry. As a result of their policies, Argentina's output of oil and gas has fallen in each of the past three years. That forms part of a pattern. Under the Kirchners some private businesses have faced nationalisation or harassment by punitive regulation, while others have flourished, seemingly because the Kirchners see them as loyal (see pages 27-29). This formula is a recipe for continued decline. So is the government's childish attempt to fiddle the country's economic statistics. Inflation, at once symptom and cause of Argentina's long fall from the first to the third world over the past century, once again threatens to take off, potentially ruining Argentines' living standards. They have only to look around them-at Brazil. Chile and Uruguay-to see that responsible centre-left governments have achieved lasting social progress by respecting the role of private investment and the sanctity of contracts.

A more mature Argentine leadership would see oil exploration in the Falklands as an economic opportunity, not a political one. Argentina could become the main onshore base for the Falklands' oil industry—if there is one. Its own offshore exploration could benefit from the know-how that this would create. A friendlier Argentina could profit greatly from co-operation with its South Allantin engiphours. And oil could provide the economic foundation for the Falklanders to declare independence—something Britain surely would not resist.

Japan's frustrating politics

# Nagasaki fallout

# Japan's prime minister, Yukio Hatoyama, should jettison his Svengali, Ichiro Ozawa



WHEN the Democratic Party of Japan (DPJ) swept a mildewed 55-year-old regime from power last year, nowhere epitomised the sense of energy and enthusiasm better than Nagasaki in south-western Japan. There, a bob-haired 28-

year-old drove from office a grizzly 68-year-old, known as "the Bear", who had won nine consecutive elections for the Liberal Democratic Party (LDP). Less than six months later, an electoral defeat in the same city has shown how quickly Yukio Harboyama's government has dimmed those hopes. He needs to

act boldly and decisively to stop his administration sinking into the very swamp of financial scandal and policy paralysis that it was elected to drain. And that requires him to rid himself of Ichiro Ozawa, the DPJ's secretary-general, electoral wizard—and, now, its biggest handicap.

This week's defeat of the DPJ's candidate for governor of Nagasaki was an indictment of Mr Hatoyama and of Mr Ozawa, both of whom have been immersed in financial scandals. The setback was compounded by the loss of a mayoral election in a quarter of Tokyo where Mr Ozawa had stooped to campaign. "My lack of virtue is to blame," Mr Ozawa said afterwards, in the sort of half-baked apology that Japan has heard so often lately—not least from the boss of Tovota. the >>

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> fault-prone carmaker that has added to the national malaise.

In politics grovelling is no longer enough. As Nagasaki shows, the Japanese have learned to exact summary justice at the ballot-box. If Mr Hatoyama does not make greater amends for his own and Mr Ozawa's follies, the DP could well pay for it in upper-house elections this July. That would leave the party's two maverick coalition partners in a strong position, which would not only damage the DPJ, but also bring further division and disillusionment to a deflation-sapped country that is crying out for good leadership.

Were this not Japan, Mr Hatoyama might have stepped down by now. To plead ignorance of the Vsgm (Ssp,000) a month with which his helress mother had for years topped up his campaign funds looks, at best, clueless. Worse, it led to tax evasion, deliberate or not, and the indictment of a former aide. His record in power has not helped, and opinion polls suggest his popularity has collapsed. His government has squabbled with America over a marine base, and internally over fiscal stimulus and the budget. In all these fights Mr Hatoyama has come across as quirky stather than authoritative. At least prosecutors have not pressed charges over the funding scandal, Japan has endured four prime ministers between 2007 and 2009, another truncated premiership is a wearying prospect.

Mr Hatoyama's minimum act of contrition should be ensuring that Mr Ozawa steps down as the pp's secretary-general. Prosecutors may have found nothing to pin on Mr Ozawa, but three current or former aides have been indicted for the misuse of political funds, and the influence he exerts over Mr Hatoyama and the ruling party is unhealthy. Mr Ozawa may have helped win the DPJ's thumping majority in last August's lower-house contest. But since then, he has thrown his weight around over cabinet appointments, budgetary matters and affairs of state the recently demanded to meet Barack Obama on a forthcoming visit to Washington). His swagger risks dividing the party, and he has become an electoral liability. He is probably shrewd enough to realise this; most opinion polls indicate he should go. But the longer he takes, the more disenchanted voters are likely to become.

# The Seven Samurai to the rescue?

Mr Hatoyama will have to find salvation elsewhere in his party—and thankfully there is some hope of this. Some ministers are learning quickly on the job. For instance, Naoto Kan, the new finance minister, has called for debate on raising the consumption tax. That is no vote-winner, but it is vital for sorting out Japan's precarious public finances. Other cabinet members distant from Mr Ozawa—some call them the "Seven Samurai"—appear refreshingly eager to get on with making policy, rather than plaving politics.

Mr Hatoyama should take a bold gamble and turn to these people to revive his party's chances in July. Fern if he jettisons Mr Ozawa, the chances are that he will rely on the man's Svengali-like influence from behind the senes. For the good of Japan he should not. He needs to show that his party can coalesce around principles and policies, not just power. Rarely in the past half-century has Japan managed that Mr Hatoyama has an historic opportunity to try. If he cannot take it, he too should think about eoine.

India

# Ending the red terror

It is time India got serious about the Maoist insurgency in its eastern states



SINCE 2006, when Manmohan Singh described the Maoist insurgency as the "single biggest internal-security challenge" India had ever faced, it has spread rapidly. Maoist guerrillas are now active in over a third of India's 626 districts.

with 90 seeing "consistent violence". Last year the conflict claimed 998 lives. This month alone the Maoists—or Nazallies, as they are known—slaughtered 24 policemen in West Bengal and 12 villagers in Bihar (see page 46). Yet neither official concern at the highest level nor continuing horrific violence have prompted a concerted and coherent strategy for dealing with the insurgency. It is time for the government to devise one.

Mr Singh may have overstated the security threat to the Indian state; but not the damage to Indian society. The government has faced bloodier threats, on its borders: from separaists in Punjab in the 1980s and in Kashmir and the north-east still. But the Kashmir valley has only 5m people, Manipur, most troubled of the north-eastern states, only 2,5m; Naxalites are scattered among 4,50m of India's poorest people, feeding on the grievances of tribal inhabitants of eastern and central India against what is all too often a cruel, neglectful and corrupt administration. This makes the Naxalites hard to treat in the way that India has treated its other insurrections; as military threats to be dealt with by force—often brutally so.

Even recognising that, the official response to Mr Singh's wake-up call from the governments of the affected Indian states has been dismal. None has much improved its overstretched, ineffectual police force. Besides bureaucratic incompetence and inertia, there are three main reasons for this inaction. First, state-level politics can play a pernicious role. The government in Jharkhand, for example, owed its election last year partly to Mosits support, and has been loth to fight them.

Second, the central government, a coalition run by the Congress party, must share the blam. It is not enough for Mr Singh, guru-like, to point the way. The strong leadership required to mobilise resources, public opinion and state governments for a long and difficult campaign has been lacking. Little has been done to bolster the central government's own paramilitary force, an important back-up to the state police. Nor has the government done much to badger the states into adopting whole-heartedly a scheme to devolve power to local councils. Yet where this has been tried it has weakened the Maoists' grip.

Encouragingly, Palaniappan Chidambaram, India's home minister, does seem ready to get to grip with the issue, giving it a new priority in the central government's policies. But he has not enunciated a clear strategy either—perhaps for good reason. The third big obstacle to dealing with the Naxalites is that >>

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no one is really sure how to. A minority, citing the success of strong-arm tactics in, for example, Punjab, wants a massive counter-Naxalite onslaught. This would be politically uninaginable and probably futile. A bigger group argues that development, to salve tribal hurts, is the only solution. Yet that, in the most undeveloped parts of India, will take year.

# Wars without end

The right approach is to focus on improving both policing and general administration. Better policing would protect poor people from Naxalite bandits and extortionists. Better local administration, providing roads, water, schools and health care, would give a stake in the Indian state to people who at present

have none. It would be a huge task anywhere in India, and especially in areas plagued by Naxalites. Yet the alternative is a potentially endless conflict that causes untold human suffering, further marginalises millions of India's poorest citizens and deters investment in some of its most mineral rich areas.

India has a remarkable ability to wage long running lowintensity wars without their causing a sense of national outrage or panic. Outrage and action—if not panic—are now overdue. Naxalism is already more than four decades old, and India's recent rapid economic growth, concentrated in urban, western and southern areas, is spawning new grievances to sustain it. If not tackled urgently, the insurgency could stunt the prospects for millions of people for a generation.

Genetically modified food

# Attack of the really quite likeable tomatoes

The success of genetically modified crops provides opportunities to win over their critics



IN THE 14 years since the first genetically modified crops were planted commercially, their descendants, relatives and remixes have gone forth and multiplied like profitable, high-tech pondweed. A new report (see page 70) shows that 25

countries now grow GM crops, with the total area under cultivation now larger than Peru. Three-quarters of the farmland used to grow soya is now sown with a genetically modified variant, and the figures for cotton are not that far behind, thanks to its success in India. China recently gave the safety goahead to its first GM rice variety and a new GM maize that should make better pig feed. More and more plants are having their genomes sequenced: a full sequence for maize was published late last year, the soya genome in January. Techniques for altering genomes are moving ahead almost a fast ast hegenomes themselves are stacking up, and new crops with more than one added trait are coming to market.

Such stories of success will strike fear into some hearts, and not only in on-averse Europe: a on backlash is under way in India, focused on insect-resistant aubergines. Some of these fears are understandable, but lacking supporting evidence they have never been compelling. On safety, the fear which cuts closest to home, the record continues to look good. Governments need to keep testing and monitoring, but that may be becoming easier. More precise modifications, and better technologies for monitoring stray DNA both within plants and in the environment around them, mean that it is getting easier to be sure that nothing untoward is soin no.

Then there is the worry that our crops are a way for big companies to take over the livelihoods of small farmers and, in the end, a chunk of nature itself. Seen in this light the fact that 90% of the farmers growing our crops are comparatively poor and indeveloping countries is sinister, not salutary; given Monsanto's dominance in America's soyabean market, it seems to suggest incipient world domination. It is certainly true that big firms make a lot of money selling our seeds: the GM seed market was worth 810.5 billion in 2009, and the crops that grew from that seed were worth over \$3.00 billion. But until

tinationals are not the only game in town. The governments of China (which has increased agricultural research across the board), India and Brazil are also developing new GM Crops. In 2009 a GM version of an Indian cotton variety, developed in the public sector, came to market, and a variety engineered by a private Indian firm has been approved for commercialisation. Chartiles, such as the Bill and Melinda Gates Foundation, are also funding efforts in various countries to make crops more hardy or nutritious. On seeds that come from government research bodies, or from local firms, may not arouse quite so much opposition as loss of mol large foreign companies, especially when they provide characteristics that make crops better, not just easier to farm.

Moreover, where the seeds come from is a separate question from who should pay for them, as Mr Gates points out. As with drugs and vaccines, it is possible to get products that were developed with profit in mind to the people who need them using donor money and clever pricing and licensing deals. In the longer term, if the seeds deliver what the farmers require, the need for such special measures should diminish. After all, the whole idea is not that poor farmers should go on being poor. It is that poor farmers should get ablit inche, be able to invest a bit more, and thus increase the food available to a growing and predominantly urban population.

# More than strange fruits

There is another worry about GM technology, though, that should be taken seriously. It is that its success and appeal to technophiles may, in the minds of those who pay for agricultural research, crowd out other approaches to improving farming. Because it depends on intellectual property that can be protected, GM is ripe for private investment. There is a lot of other agricultural research that is less amenable to corporate ownership but still needs doing. From soil management to weather forecasts to the preservation, study and use of agricultural biodiversity, there are many ways to improve the agricultural bystems on which the world's food supply depends, and make them more resilient as well as more profitable. A farm is not a just a dever crop; it is an ecosystem managed with intelligence. OM crops have a great role to play in that development, but they are only a part of the whole.

# Spain's Greek tragedy

SIR - You are right to stress the urgency of labour-market reforms in Spain if it is to avoid the same fate as Greece ("So hard to bend", February 13th). Spain's jobs market requires a complete overhaul and the labour-bargaining process is indeed a good place to start. But Spain's predicament cannot be resolved by redesigning its labour market alone. The reform process needs to be widened to take in other parts of the economy and should include a restructuring of savings banks, upgrading the education and training system. and applying the European Union directive for services in order to improve competition and create new firms. Spending priorities need to change too, with less money going to non-productive enterprises and more on tax policies that encourage work, savings, investment and innovation.

A bold reform of the overall economy is the best way forward to secure more and better jobs and establish the new growth model to which José Luis Rodríguez Zapatero, the prime minister, frequently refers. Whether or not Mr Zapatero is the man for the job remains to be seen. JOSÉ RAMÓN DE ESPÍNOLA ROBERT ROBINSON Department of economics Universidad Pontificia Comillas Madrid

SIR - Spain's jobless rate shot up rapidly not so much because firms could not limit pay or other labour market inflexibilities but because the construction boom ended. Estimates vary, but this alone added at least 1.5m people to the total number of unemployed. But even if it introduced perfect labour-market reforms tomorrow, Spain would not be able to absorb all those presently unemployed. Its challenge therefore is to create jobs in non-construction sectors. Without such a strategy, labour-market reforms will only end in failure.

Signs that such a strategy is being thought about and implemented can be found in

the development of tourism away from the Mediterranean, the creation of biotech clusters around the main universities in Barcelona, and in the alternative energy sector, where companies like Iberdrola are world leaders in wind and solar power. FRANK DE HAAN Alicante, Spain

# Minding your Ps and al-Os

SIR - Prevent, pursue, protect, prepare and persevere: all may help parry al-Qaeda, as you proposed ("The bombs that stopped the happy talk", January 30th). But you neglected a principal plank of al-Qaeda's propaganda, spelled out in Arabic in the picture accompanying your article: "Neither America, nor any person living in America, will dream of security until we really live in security in Palestine.'

Al-Oaeda may be duplici-

tous in exploiting Muslim opinion about the West's bias towards Israel, but the West would be imprudent to pass over the real anger that is provoked by unbalanced support for Israel. Al-Qaeda militants have often said their first steps were motivated by a desire to exact revenge for Israeli actions. So how about promoting a sixth P to plug the flow of recruits to such groups: peace, through fair play in the Middle East? That way, the plosives might indeed begin to overpower the explosives. HUGH POPE Istanbul

# Torture, or just degrading?

SIR - You described the punishment meted out to Khine Kyaw Moe in Myanmar, He was "half-suffocated, savagely beaten, half-starved and then fed contaminated food" for opposing the ruling junta ("Paying the price", February 13th). In another article in the same issue you reported on the Foreign Office's summary of how Binyam Mohamed, an Islamic extremist, was dealt with while under interrogation. Mr Mohamed was "shackled, deprived of sleep and told that he would be

'disappeared' unless he cooperated" with intelligence agencies ("Under duress"), Yet in both cases you defined the very different treatment of both these men as "torture". By doing so you lost all sense of perspective of what the word means. SYLVIA HURST Tel Aviv

# This septic isle

SIR - You took "fashionable" thinking to task for overstating the case that British society is in a mess ("How broken is Britain?", February 6th), But although it is true that the media often irresponsibly revels in reporting only bad news, and statistics point to Britain becoming a more positive place, many Britons hold a firm belief that there is little notion of "respect" or "community" any more. When most people talk about "broken Britain" they mean whether someone stands for a pregnant woman on a train or fears being stabbed for asking kids to throw their litter in a bin. CONRAD MARATS

Englefield Green, Surrey

SIR - I disagree that the Conservative Party's idea of a tax break for married couples is an "extraordinary proposal" and hands "bonuses to plenty of well-off people". The British state already promotes single parenthood through benefits and the tax-credits system. A measure from the Tories on marriage will restore some sort of balance, According to CARE, a Christian social-policy group, a married couple with children with only one partner earning (up to £33,000, or \$51,000) can expect to pay almost a third more in tax than the OECD average. **REN HATNES** Gloucester, Gloucestershire

# Summing up for the jury

SIR - Further to Judge David Miller's letter (February 6th) on the advantages of non-jury trials, why should the criminal-justice system be restricted to just two options? I see no reason why we can't have the

advantages Judge Miller described-a reasoned judgment rather than a bare statement of the verdict-without sacrificing the protection against

injustice that the jury provides. Delivering a verdict is just one part of a jury's involvement in a trial. The essential function of jurors is to act as witnesses to justice and to confirm the public's recognition of the mechanisms of the law. If the courts acknowledged this explicitly, by asking the jury to deliver a verdict not on the matter of guilt but on the trial itself, then the issue of who should decide "guilty" or "not guilty" would become much less contentious.

Let the judge deliver the verdict on the case, and let the iury answer the question. "have you seen justice done?". MALCOLM RAMSAY Lincoln, Lincolnshire

SIR - It is true that a jury does not provide reasons for its decisions, nor indicate what evidence those decisions were based on. But that could be changed by a new law if legislators so desired. It is also true that juries have sometimes produced curious verdicts and indulged in dubious behaviour, but so have judges. THOMAS GROVES Ashford, Kent

# Infantile politics

SIR - Charlemagne's account of the push for universal nursery school attendance in Sweden (January 30th) brings to mind Benjamin Disraeli's observation, that "whenever is found what is called paternal government, there is found state education. It has been discovered that the best way to ensure implicit obedience is to commence tyranny in the nursery".

JONATHAN HAUGHTON Arlington, Massachusetts 🔳

Letters are welcome and should be addressed to the Editor at The Economist, 25 St James's Street, London SW1A 1HG E-mail: letters@economist.com Fax: 020 7839 4092 More letters are available at: Economist.com/letters

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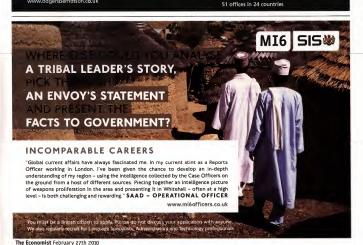
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# Director of Information Technology

Vacancy Notice No: 15/2010

The role. Ensuring that the Council's information system is fully compatible with the organisation's general strategy, you will oversee the design and implementation of IT systems; manage document and archiving processes; and ensure the security of computer and telecomm unications systems.

The candidate. An appropriate degree-level qualification is essential, combined with substantial experience of managing an IT function, ideally in an international environment.

To apply. Applications must be made in English or French using the Council of Europe on-line application system www.coe-recruitment.com Closing date for receipt of applications: 30 March 2010 (midnight Central European time)

Under its equal apportunity policy, the Council of Europe is aiming to achieve parity in the number of women and men employed in each category and grade. The Council of Europe welcomes applications grade. The Council of Europe welcomes applications from all suitably qualified candidates, irrespective of gender, disability, marital or parental status, racial, ethnic or social origin, colour, religion, belief or



# DILIGENCE

# BUSINESS INTELLIGENCE DIRECTOR, GENEVA

Diligence is looking for an experienced business intelligence consultant to be based in Geneva. If you thrive in a dynamic environment and have the personal qualities necessary to be integral to the growth of a leading business intelligence consultancy, we encourage you to apply. To learn more about Diligence please visit www.diligence.com.

As a Director you will manage a team conducting commercial intelligence operations. This involves collecting unique information and providing analysis and advice to clients with challenges in emerging markets.

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CV and cover letter in English is to be submitted to: edowling@diligence.com.

Only candidates selected for interview will be contacted.

# **Executive Focus**



Are you looking for challenging work? Do you want to contribute to Latin America and the Caribbean?

You can make a difference at the Inter-American Development Bank. We are searching for outstanding individuals to fill these positions:

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These individuals with a minimum of 8 years of relevant experience and an advanced degree will be responsible for supporting the design, execution and evaluation of specific citizen security operations.

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The IDB offers a competitive compensation and benefits package and a diverse and inclusive work environment.



Partnership Dialogue Facility

# Project Manager (m/f)

A key advisory role on energy and development issues, advising governments and supervising studies. The post also involves liaison with relevant EU institutions.

The EUEI Partnership Dialogue Facility (EUEI PDF) is funded by a number of EU Member States and the European Commission to help formulate policies and strategies for energy access with a focus on Africa. We conduct studies on key issues of energy access and security and organise dialogue events. The EUEI PDF also supports the Africa-EU

Energy Partnership, with expert advice and in political dialogue. This is an opportunity to join a lively multidisciplinary and international team, assisting EU Member States and the European Commission to coordinate European development policy, lialsing, networking and

sharing information in the fast-changing field of energy. You will require good communication and negotiation skills, experience and understanding of development issues in energy in Africa and elsewhere. Politically and culturally sensitive, you are able to think on your feet and make sound judgements on project viability.

The successful candidate will be hired by Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH, Germany.

Please visit www.gtz.de/jobs or contact Ms. Astrid Wollermann at tel. +49 6196 79-6185 for further details. We look forward to receiving your online application!

**Eurosistema** 

# The World Health Organization (WHO)

seeks a

# Director, Emergency Response and Recovery Operations (vacancy notice no. HQ/10/HQ/FT70)

The role of the Director, based at WHO's Geneva headquarters, is to provide leadership, guidance and assurance of technical excellence to the department of Emergency Response and Recovery Operations (RRO). He/she leads WHO's HO-wide programme and operational support to country emergency response and recovery operations and supports WHO Regional and Country offices to fulfil their missions in this area. The Director operates in a complex environment and manages technically demanding areas of work, meanwhile carrying a high profile within WHO and beyond. Key functions of the position include

(1) strategic and technical direction, (2) collaboration with Health Cluster partners for emergency countries, (3) ensuring WHO's cluster leadership, (4) coordination of emergency assessment missions, and (5) resource management

Salary: an attractive salary package including international allowances, social security and statutory entitlement is offered.

Please apply on-line to the above vacancy.

For more details kindly click the following link: http://www.who.int/employment/vacancies

Closing date for application: 11 March 2010



BANCODE ESPAÑA

JOB

**OPPORTUNITIES** 

# ANNOUNCEMENT OF RESEARCH PROJECTS IN ECONOMICS AT THE BANCO DE ESPAÑA (2010-2011)

Selection of up to six research projects in the field of applied economics. preferably addressing macroeconomics, monetary policy, international economics, econometrics, banking, finance or the labour market.

The research work shall be conducted in the Research, International Affairs and Financial Stability Departments on the premises of the Banco de España in Madrid. Projects should be completed within a maximum period of twelve months. The provision of services to the Bank shall not commence prior to 1 September 2010.

Requirements; Candidates must hold a Doctorate, Ph. D. or equivalent degree, have proven research experience in subjects related to one or more of the areas indicated above and have a full command of spoken and written English.

Deadline: before 1 p.m. on 5 April 2010

# Contact:

Internet: www.bde.es (Job opportunities)

Telephone (0034) 91 338 6834 (Monday to Friday from 9 a.m. to 2 p.m.) E-mail: rho.seleccion@bde.es

Ordinary mail: Apartado de Correos, 15 - 28080 Madrid





Enabling poor rural people to overcome poverty

# Director, Human Resources

IFAD is an international financial institution and a specialized United Nations agency dedicated to eradicating poverty and hunger in rural areas in developing countries. It does so by financing programmes and projects that increase agricultural productivity and raise rural incomes, and by advocating at the local, national and international levels for policies that enable poor rural people to overcome poverty.

We are looking for a Director, Human Resources (grade D1/D2). As part of the Office of the Vice President of the Fund, and working in consultation with Senior Management. the successful candidate will manage and supervise a team of staff to ensure effective HR business partnerships in the achievement of IFAD's mission of pro-poor community-led rural development and poverty reduction.

# For detailed information, visit our website www.ifad.org/job

Please send your application to vacancy@ifad.org by 22 March 2010

# INTERNAL AUDITING UNIT **CGIAR**

# Director of Internal Audit

The centers supported by the Consultative Group on International Agricultural Research are looking for a dynamic and mission-oriented individual to lead our shared Internal Auditing Unit (IAU). The centers undertake high-quality science with our partners aimed at benefiting the poor through improved food security, better human nutrition and health, higher incomes and improved management of natural resources. The IAU provides independent assurance and strategic advice designed to add value and improve the centers' operations. The Director will ensure that IAU business objectives are met, resources are employed efficiently and effectively, and that audit work conforms to international professional standards. The Director will oversee a team of highly qualified and competent professionals, strategically located to serve the Centers while reporting functionally to the individual Centre boards and administratively to the Sponsors committee and the host centre

The successful candidate will have a relevant professional degree and fifteen years experience including significant international exposure. She will be an excellent communicator and willing to travel extensively. Applications are welcomed from suitably qualified and experienced women and men from a range of backgrounds and experience

The Director's duty station is currently at the International Rice Research Institute (IRRI) in Los Baños, Philippines with a fully monetized compensation package in USD determined on the basis of the qualifications and experience of the successful applicant. The remuneration is tax exempt in the Philippines and in a number of other countries. Consideration may be given to other Center locations from which the successful candidate could effectively and efficiently operate.

Applicants for the position should submit a resume and a statement of application by email to IRR/Recruitment@cgiar.org no later than March 31, 2010. Only shortlisted applicants will be contacted. The full position description may be found at www.irri.org/jobs.

# Congressional Research Service **EXECUTIVE LEADERSHIP POSITION**

**Deputy Director and Senior Specialist** 

# Senior Level, \$165,300

The Congressional Research Service seeks a senior level executive with experience in overseeing an organization-wide research program to serve as its Deputy Director.

For nearly a century, the Congressional Research Service (CRS) has provided confidential, For nearly a century, the congressional nessarrin Service (LIA) in SEQ provides (LIA) and understand an expense to Congress to support its legislative deliberations and oversight activities. CRS is located on Capitol HIII, within the Library of Congress, allowing direct access to committees and Members of both the House and Senate. CRS staff work in a collegial, campus-like environment that the others and encourages collaboration across issues and disciplines.

If you are an experienced leader with broad knowledge of U.S. public policy issues and a proven track record of efficiently managing organization-wide resources, people and activities while demonstrating good judgment and a strong commitment to confidentiality, we encourage you to apply. are selected for this challenging role, you will serve as the principal advisor to the

If you are selected for this clearing this court of the court of the CRS Director with an emphasis on overseeing the research planning and management activities of the Service and ensuring that CRS meets Congress' needs for research and analysis. As the CRS Deputy Director, you will serve as a principal CRS representative to Members, committees and officers of the United States Congress.

This position is at the Senior Level (\$165,300) and candidates must submit an online application by March 22, 2010. For more information on this position and application requirements, please visit: http://www.loc.gov/crsinfo



LIBRARY OF CONGRESS CRS is the public policy research arm of the U.S. Congress and is fully committed to workforce diversity

# The Asia Foundation

The Asia Foundation is a San Francisco-based non-profit, non-governmental organization committed to the development of a peaceful, prosperous, just, and open Asia Pacific region. Operating through a network of 19 resident offices in Asia with more than 600 national and expatriate, the Foundation supports programs that help improve governance, law and civil society; women's empowerment; economic reform and development; and interr

The Foundation has experienced rapid and diversified growth in recent years through grants and cooperative agreements with official development assistance agencies in the U.S., Europe, Australia, Canada, and Asia; international financial institutions including the World Bank and Asian Development Bank; an annual appropriation from the U.S. Congress; and confrom corporations, foundations and individuals. Its annual budget is approximately \$130

The Asia Foundation seeks a President and CEO who, working closely with a distinguished and active Board of Trustees, will ensure the Foundation's continued success in implementing innovative programs, diversifying its funding base, disseminating program results to policy makers and development practitioners, and enhancing the Foundation's reputation for intellectual leadership and program excellence.

### The President and CEO will

Provide strategic leadership and foster an environment of creativity and innovation; Engage trustees and staff in an ongoing process to review the Foundation's program priorities and strengthen its organizational structure;

Galvanize the potential of a decentralized organization with its highly capable staff by encouraging program leadership and providing appropriate support functions throughout the organization:

Ensure the effective communication of TAF's programs and accomplishments to its multiple stakeholders and constituencies, including the U.S. Congress, U.S. and international development assistance donors, development practitioners, policy maker and other international leaders

Advance a fundraising strategy that facilitates sustainable growth through an appropriate balance of funding from the U.S. Government, foreign governments, development organizations, corporations, foundations, and individuals: Travel frequently 1: interest with the Free dation's field staff and cultivate persons

relationships with donors, program partners, and Asian leaders. For more information on our organization, please visit www.asiafound.org. To apply, please

send your CV to TAF@russellreynolds.com

# **Executive Focus**



Wissenschaftszentrum Berlin für Sozialforschung

The Wissenschaftszentrum Berlin für Sozialforschung (Social Science Research

Centre Berlin - WZB), a member of the Leibniz Association, is a publicly funded institute for problem-oriented, basic social science research, its work is characterised by long-term projects, theory-driven empirical research, multi-disciplinary cooperation, international comparison, and transnational perspectives. in the Research Area "Markets and Politics" the position of

# Head of Unit/Director

of a new research unit (Forschungsabteilung) on Economics is to be filled.

The research focus of the new unit is on fundamental issues in the field of either Political Economics, Public Economics or Law and Economics, with a strong relevance for economic and social policy. Orientated towards theory-based empirical and/or experimental analyses, the research unit should be open for cooperation with other units within the cross-disciplinary research environment of the WZB

Applicants for the directorship are expected to show a strong interest in developing a long-term research programme, and in building and leading a research team. Academic excellence should be demonstrated not least by an outstan-

ding international publication record.

This leading position will be coupled with an S professorship (W3 salary) at one of the three Berlin universities with which the WZB cooperates. Thus, the prerequisites for an appointment to a university professorship (in accordance with Section 100 of the Berlin University Act) must be met.

Preference will be given to disabled candidates with equal qualifications. The WZB expressly invites women to apply

Further information concerning the institutional conditions for the position advertised will be provided on request. Applications enclosing the customary docurrents should be sent to the following address by 15 April, 2010:

President of the Wissenschaftszentrum Berlin für Sozialforschung

Prof. Jutta Allmendinger, Ph.D. Reichpietschufer 50, D-10785 Berlin, Germany



The Global Donor Platform for Rural Develo 33 bilateral and multilateral donors and international financing instit tions that share a common vision of the role that agriculture and rural development plays in reducing global poverty. They are cor achieving increased and more effective aid for agriculture and rural development through evidence-based advocacy and knowledge

sharing. The Platform Secretariat is hosted by BMZ, staff end fi services administered by the German Technical Conneration (GTZI. Opportunity with the Global Donor Platform for Rural Development

TASK LEADER - AGRICULTURE AND RURAL DEVELOPMENT POLICY

The Task Leader Agricultural and Rural Policy provides policy and strategic support to the Board, Steering Committee, member organisations and partners in the area of agricultural and rural development. Responsibilities include:

- · Organise Platform Knowledge Pieces, policy briefs and advocacy notes.
- Provide thematic input on ARD policy.
- Support the organisation of Platform events.
   Facilitate joint analytical work.
- Quality assurance of documents
- Review the output of consultants and lead institutions. Provide backstopping services and technical expertise
- Review terms of reference for consultants.

# Minimum Qualifications:

- University degree in agricultural economics, rural development or related discipline At least seven years relevant experience in rural development, including positions of
- sibility with international financing institutions or bilateral donors in the field. ound understanding of the basic principles of development economics and their relevance to agricultural policy and development.
- Excellent written and spoken English. Competency in French and/or Spanish is an ass

# Please submit your application including a letter of motivation and CV online

at www.gtz.de/en/karriere/stellenmarkt/24996.asp by 14 March 2010. Complete ToR available online, Job ID 3758. We are an equal opportunity employer. The successful candidate will be contracted by GTZ.

\*\*\* www.donorplatform.org and www.gtz.de

# **MEMBER**

mational Financial Reporting Interpretations Committee

The Trustees of the International Accounting Standards Committee (IASC) Foundation invite applications from suitable candidates to fill up to four vacancies on the International Financial Reporting Interpretations Committee (IFRIC).

The IFRIC is the interpretative body of the International Accounting Standards Board (IASB) and, with the new appointments, will consist of fourteen voting members under the non-voting chairmanship of IASB member Robert Garnett. The role of the IFRIC is to interpret the application of International Financial Reporting Standards (IFRSs) to ensure consistent accounting practices throughout the world and to provide timely guidance on financial reporting issues not specifically addressed in IFRSs, within the context of the IASB's Framework

In making these appointments, the Trustees will place special emphasis on a candidate's ability to identify and address issues concerning the practical application of IFRSs.

The Trustees will appoint up to four members to the IFRIC to serve for a term that will expire on 30 June 2013. The Trustees have indicated that they will give consideration to three IFRIC members who remain eligible and are available for reappointment. Newly appointed members would be eligible for reappointment. Members are expected to attend about six two-day meetings each year held in London, Membership is unpaid, but the IASC Foundation meets members' expenses of travel on IFRIC business.

Please indicate interest by sending a cover letter and curriculum vitae by 12 March 2010 to Tamara Feldman. Assistant Corporate Secretary, IASC Foundation, 30 Cannon Street, London EC4M 6XH, United Kingdom, email: tfeldman@iasb.org



# **(V)CGAP**

# Chief Executive Officer Washington, DC

The Consultative Group to Assist the Poor (CGAP) is looking for a talented executive to lead the organization as its next Chief Executive Officer. Housed at the World Bank, CGAP is an independent policy and research center dedicated to advancing financial access for the world's poor. It is supported by over 30 development agencies and private foundations who share a common mission to alleviate poverty. CGAP provides market intelligence: promotes standards, develops innovative solutions; and offers advisory services to governments, microfinance providers, donors,

Currently in its 14th year of operation, CGAP is recognized as a powerful and pivotal force in the field of microfinance with a strong reputation for thought leadership; high quality publications; and for its ability to attract and retain talented, passionate, entrepreneurial staff,

The Chief Executive Officer (CEO) of CGAP will be directly responsible for providing strategic direction and leadership to the CGAP Team and to CGAP stakeholders. This is an exciting opportunity for the right candidate to play a leading role in the microfinance industry at a critical juncture in its development. Enormous energy, a world-class intellect, and a passionate commitment to improving the lives of poor people are all requirements for this position.

The review of applications is currently under way. For a detailed position description as well as more information on CGAP and its work, please visit www.cgap.org. To submit a nomination or letter of interest, please send correspondence to: cgap@spencerstuart.com

# **United Nations Development Programme**

UNDP is the UN's development network, bringing the global community together to help countries with their own solutions to achieve growth, equity

# Management for Development

and sustainability. As a long-time trusted partner of governments

and civil society groups, it provides services for 166 countries, including the very poorest. We currently have more than 150 job opportunities, in locations across every region of the world.

One of those opportunities is: Manager, Regional Monitoring Team: The Manager is responsible for monitoring the financial management performance of Country Offices within the Asia and the Pacific, the Arab States and Europe and the Commonwealth of Independent States Regions, providing support. oversight and control, to increase performance. The ideal candidate will be a qualified accountant, with experience of financial management at global and regional levels.

> To learn more and apply please visit us at : http://jobs.undp.org/cj\_view\_job. cfm?job\_id=14610

# Head of International Strategy

c.£52,000 + excellent benefits

The Victoria and Albert (V&A) Museum is the world's leading museum of art and design. We enrich people's lives by promoting the practice of design and increasing knowledge, understanding and enjoyment of the designed world.

The role of Head of International Strategy presents an exciting opportunity to co-ordinate, develop and promote the V&A's work outside the UK, with the aim of strengthening the international dimension of the museum's successful brand and contributing to Britain's international cultural diplomacy.

You must bring a clear understanding and have practical experience of current issues affecting the museum and arts sector, as well as having an established network of connections within the museum field or the potential to acquire one. You will also have strong communication skills and broad management experience.



For more information and to apply online, please visit the V&A's website. CVs will not be accepted Closing date: 21 March 2010 www.vam.ac.uk/jobs





### ALN Supporting Clients Across Africa

ALN (formerly Africa Legal Network) is an organ sation currently comprising ten lea in sub-Saharan Africa. All firms work collaboratively, leveraging on the experies of the member films for seamless delivery of legal advisory and transactional services, especially those of a complex and multi-partial closed in store. All his the coll organization of its kind in sub-Saharan Africa and and multi-partial closed in store. All his the coll organization of its kind in sub-Saharan Africa and represents a significant milestone in the provision of cross-border legal se More information on ALN can be found at: www.africalegalnetwork.com

ALN is currently seeking to recruit a Chief Executive Officer and lawyers for its member firms. Chief Executive Officer

This new role will be pivotal in developing and managing ALN's service offening across Africa and carries a wide portfolio of responsibilities encompassing governance, finance, membership relations, business and professional development. The CEO will be based in a location to be agreed with the candidate, but the role will require air

travel within and outside Africa. The CEO will work closely with the Chairman, Chref Financial Officer and Chlef Information & Communications Officer and will report to the ALN Board of Directors.

# The CEO's responsibilities will include:

- Developing and articulating the organisation's policies and strategies
- Implementing the strategic goals and objectives of the organia: Establishing and maintaining effective external relationships Establishing and maintaining effective expernal relationships Giving direction and leadership toward the achievement of the organisation's mission
- The ideal candidate for this position should:

Leveryage required

- demonstrate experience in management, preferably in a professional services organisation have strong commercial flair with demonstrable ability to develop new business demonstrate leadership and team management skills in a multi-cultural environment.
- have working knowledge of a second language other than English apecifically French. Portuguese or Arabic
- show ability to initiate and manage change and innovar
- hold a degree from a recognised institution in a relevant discipline have a strong working knowledge of the African continent (in particular, aub-Saharan Africa)

# This position attracts a competitive salary commensurate with experi-

ALN firms are looking for lawyers to join their corporate, banking, litigation & arbitration and real estate practices. These positions are suited for lawyers with qualification and experience in the UK. estate practices. These positions are suited for lawyers USA, Canada or France who wish to repatriate to Africa.

The ideal candidates should be adaptable lawyers of good standing with between two (2) to seven (7) years post qualification experience in the relevant area(s) of practice with demonstrable ability to establish and maintain client relationships. Experience in Africa-related matters would be of added benefit.

Closing date for applications: 2nd April 2010 Please aend your application enclosing your curriculum vitae clearly stating the

position applied for to Pamela Nabwire at: pwn@africalegalnetwork.com Botowana/Burundi/Ethiopia/Kenya/Mauritius/Mozumbique/Mauritius/Rwanda/Tanzania/Uganda/Zambia



MINISTRY OF FOREIGN AFFAIRS OF DENMARK



# DANIDA SEEKS ADVISER

# Three Senior Advisers (N1), Mali

The Danish Ministry of Foreign Affairs, Danida seeks three Senior Advisers for the Water and Sanitation Programme in Mali.

# www.danidaiob.dk

Visit www.danidaiob.dk for full job descriptions and information about the work life and role as Danida adviser. The consulting firm Mercuri Urval participates in the selection process.



# **Briefing** Argentina under the Kirchners



# Socialism for foes, capitalism for friends

BUENOS AIRES

While some private businesses in Argentina have faced harassment or even nationalisation, others have flourished thanks to political contacts

HEN Néstor Kirchner took over as Argentina's president in 2003, his country's economy was already on the mend after a sickening collapse 18 months earlier that had prompted debt default and devaluation. Lambasting the IMF and privatisation, Mr Kirchner extended the state's control over the economy. Rising world prices for Argentina's farm-commodity exports and government pumppriming unleashed an economic boom. This made Mr Kirchner a popular hero. and secured the election of his wife, Cristina Fernández de Kirchner, as his successor in 2007. She has continued his policies. Mr Kirchner was last year elected as a congressman, but according to former officials he still takes many executive decisions.

Enjoying almost complete political dominance. Argentina's first couple swatted away critics who accused them of everything from illegal enrichment to wrecking institutions. They are still trying to do so. Ms Fernández frequently accuses Argentina's leading newspapers of making up stories to discredit her government. But it is getting harder. Thanks to the world recession, rising inflation and a series of political errors, her approval rating in opinion polls has fallen to 20%. After losing a working majority in a congressional election last year, the government is on the verge of losing control of key committees of Congress as well.

Yet this is no ordinary slump of the type familiar to long-serving governments in other democracies. Four of the president's private secretaries are being investigated for enriching themselves illegally. Two, Julio Daniel Álvarez and Fabián Gutiérrez, recently resigned. Meanwhile Mr Kirchner has been criticised for a transaction in October 2008 in which he swapped pesos for \$2m shortly before the value of the currency fell sharply. He says this was to buy a stake in a hotel company that was priced in dollars and insists that he was not speculating against the peso. However, the Kirchners admit that their personal wealth has increased dramatically while they have been in office.

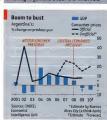
"Governability", Mr Kirchner said at his inauguration in 2003, "cannot be a synonym for impunity...obscure agreements, the political manipulation of institutions, or spurious pacts behind society's back." In power, the Kirchners have frequently belied those fine words. They have bullied institutions that have got in their way, from the judiciary to the Central Bank, They have used the power of the state to harass groups they see as hostile, from farmers to utility companies. Meanwhile, some of their allies have thrived.

### The Santa Cruz connection

Both the Kirchners are from the left wing of the dominant Peronist movement. Both claim to have been active in the resistance to Argentina's military government. Mr Kirchner, the child of parents of Swiss and Croatian stock, forged his political career in his home province of Santa Cruz, in far-off Patagonia. He was its governor from 1991 until he moved into the Casa Rosada, the presidential palace. Rafael Flores, a former Peronist congressman who represented the province for 12 years, says that Mr Kirchner transferred his way of operating and his economic philosophy from the province to the national stage, "In Santa Cruz," says Mr Flores, "Kirchner behaved in all the ways he would when he became bigger in the country: manipulation, pressurising mayors, persecuting people who didn't agree with him."

Mr Kirchner rarely talks to reporters. When president, he gave no press conferences. Neither he nor Ms Fernández has responded to The Economist's requests for interviews. So we do not have their answer to such criticisms.

Santa Cruz is remote and sparsely populated, but rich in oil and gas. As governor, Mr Kirchner ploughed hydrocarbons revenues into public-sector jobs and infrastructure projects. Oil and gas companies needed his administration's approval to get exploration contracts. The Kirchners developed a tight network of trusted friends in Santa Cruz, several of whom followed them to Buenos Aires (where they were dubbed "the penguins"). Mr Kirchner's sister. Alicia, is the minister for social development. Another aide from Santa Cruz is Iulio de Vido, an architect who was introduced to the Kirchners in the 1980s. He served as the province's economy minister when Mr Kirchner was governor. Since 2003 he has been Argentina's minister of planning, in charge of a vast bureaucratic empire that spans public works, transport, communications, energy and mining. Mr Kirchner also appointed Mr de Vido's wife to a senior post in the govern->>



# ment's internal-audit agency.

Mr Kirchner's governorship is remembered for something else too; the mystery surrounding some \$600m in financial assets belonging to the province. (A former official in a previous national government who has investigated the matter thinks the true figure was closer to \$1 billion.) In 1999 the province sold, at a big profit, shares in YPF, the privatised national oil company, which it had received in 1993 in lieu of unpaid royalties. It held the proceeds abroad. The provincial government said that the interest was invested in public works. Opponents of the Kirchners in Santa Cruz accept that some of this money has returned to the province. Mr Kirchner has never explained what happened to the rest.

### Penguins in Buenos Aires

On becoming president Mr Kirchner struck up a friendship with Hugo Chäve, but the first couple's approach to the private sector has been a bit more suble than that of their Venezuelan counterpart. They have nationalised, but sparingly. The government has taken over the troubled national airline and the private pension system, and also set up several new state companies. Meanwhile, some private businesses have faced regulation to the point of harassment.

The Kirchners retained an economic emergency law that, among other things, allows the government to change the contracts under which privatised utilities provide services. It was passed as a temporary measure after the peso devaluation of 2002. Regulators, previously independent, have been turned into rubber stamps. Now it is the government that sets utility prices. The method often involves phone calls from the offices of Mr de Vido or Guillermo Moreno, the secretary of commerce. The freezing of the retail price of natural gas has discouraged investment in exploration. The price of beef has been held down by adding a high export tax, encouraging farmers to sell in the domestic market. Farmers are now able to export only at the government's discretion.

Despite these price controls, both formal and informal, Argentina suffers from high inflation. In 2007 Mr Moreno's team changed the way the consumer-price index was measured by the National Statistics and Census Institute (INDEC). This had the effect of keeping the official inflation figure in single digits. Private estimates are much higher (see chart). The credibility of the official figures took a further knock this month when union leaders sympathetic to the Kirchners called for wage rises of 25% to make up for inflation. The lower official number has meant the government has made a net saving on its inflation-linked bonds of \$1.7 billion, according to a former finance official.

The government also gets involved in private business dealings that should be beyond its remit. Two examples stand out. The first involves Shell which, during 2004, had talked to Brazil's Petrobras about selling its assets in Argentina and Brazil. The company changed its mind after details of these talks leaked. Shortly afterwards it raised prices at its petrol stations in Argentina. In response Mr Kirchner urged Argentines not to buy "even a can of oil" from the company. Mr Moreno's office then fined Shell 23 times in 2006 for undersupplying the market. According to Juan José Aranguren, the company's head in Argentina, Shell was providing 8% more petrol than the year before, a bigger increase than the market average.

Mr Aranguren faced 57 arrest warrants in 2007, again for allegedly undersupplying the market, each carrying a prison term of between six months and four years. All of them are still in the courts. Next the government ordered shell to shut down a refinery for alleged environmental violations, allowing it to reopen without explanation five days later. At the same time, other people in the administration were offering Shell opportunities to sell its Argentine assets, says Mr Aranguren.

The second example of government interference involves the Clarin Group, Argentina's most powerful media business. In September last year, 200 tax inspectors descended on the group's offices. No one seemed to know who sent them. The tax agency's boss denied ordering the inspection. The government accused its opponents of organising the raid to make it look bad. The group's daily newspaper, Clarin, and its television stations have been fierce critics of Ms Fernández's government. The taxmen arrived as Argentina's Congress prepared to debate a new media law that will force Clarin to sell many of its radio and television interests.

There is a case for regulating media ownership in Argentina, and Garin's nar-ket dominance would be considered unacceptable in some countries. But the marfect of the new law is to weaken the president's chief critic in the media. This blow against the Clarin Group followed another. In August the Argentine football confederation broke a contract with Clarin for the transmission of live league matches, and signed a new one with the state channel. Clarin alleges that Mr Kirchner was behind the switch.

# The pension-fund piggy bank

State control of Argentina's private sector has been tightened further since the nationalisation of the private pension funds in December 2008. Because the funds had big shareholdings in many of Argentina's companies, the government, in the form of the National Social Security Administration (ANSES), now has the right to nominate directors to the boards of these firms. a prerogative it has exercised by placing directors at around 20 companies. ANSES performs another function, too. With the economy slowing ahead of the congressional election in June last year, Ms Fernández ramped up spending on public works and the unemployed, treating the pension sys->>



Shell was punished for refusing to co-operate

tem as a piggy bank, Local economists estimate that the central government's accounts last year went into the red for the first time since 2002. The pension system is one of its main creditors.

The Central Bank, which in theory is independent, has also been brought within the president's direct control. In December the government floated the idea of creating a "Bicentennial Fund" with the aim of using the bank's hard-currency reserves to pay off a group of foreign bondholders who rejected a debt restructuring in 2005. thereby restoring the government's access

to international financial markets, Martín Redrado, the bank's governor, demurred, arguing that in an economy like Argentina's, where many people think in dollars because of past hyperinflation, the reserves were an important cushion against swings in foreign-exchange markets. He was also advised that the transfer might make funds held by the Central Bank abroad vulnerable to claims by creditors.

Thwarted by Mr Redrado, Ms Fernández decided to sack him. Mr Redrado dug his heels in, insisting that only Congress could remove him. A judge who ruled in Mr Redrado's favour in the dispute, María José Sarmiento, found the police on her doorstep on January 9th. If that was too subtle, the president's chief of staff, Anibal Fernández (who is not related to the president), told reporters that the judge's every movement was being watched. Eventually the president got her way and Mr Redrado was replaced with a more pliant figure.

Not everyone is treated so harshly. Indeed, a few businessmen who enjoy good relations with the Kirchners have done well in recent years. They are known in Argentina as the empresarios K. One is Lázaro Báez, whose firm, Austral Construcciones, began life as a small builder in Santa Cruz and has since diversified into oil exploration and farming. Much of the company's business has been in public-works projects in Santa Cruz. Mr Báez was also awarded oil-exploration rights in Santa Cruz.

It was Mr Báez's company, Epsur, which together with Enarsa, a state company, offered to buy Shell's assets in Argentina in 2007. He has described his relationship with Néstor Kirchner as one of "platonic love." Their affair goes back to the early 1990s, when Mr Báez worked as a manager in Banco Santa Cruz, a bank privatised by Mr Kirchner when he was governor.

Another friend is Cristóbal López, who controls a company called Casino Club and operates casinos and gambling halls throughout Argentina, including one at the Palermo racecourse. Shortly before leaving office. Mr Kirchner issued a decree extending Mr López's licence to run the slot machines at the racecourse until 2032 and raising their number by 50%.

Enrique Eskenazi, a grandee of the private sector and the controlling shareholder in Banco Santa Cruz, argues that politics and business are so closely linked in Argentina because the country lacks the institutions that ought to separate them. In 2007 his company, Grupo Petersen, bought a 14.9% stake in YPF from Spain's Repsol, which wanted a well-connected local partner for its troubled investment. So keen was Repsol to get Mr Eskenazi on board that it lent him more than \$1 billion to buy the stake. He rejects any suggestion that Grupo Petersen's success stems from his political connections, "Under President Alfonsín, people called us Alfonsinistas; under President Menem, we were Menemistas. Under the Kirchners, we're Kirchneristas. We're used to it." In Argentina, he says, any success is viewed as suspicious, unless it is won on the football pitch.

Maybe so. But the Kirchners have left their country with weaker institutions, and an economy in which the state plays a much bigger role and in which political contacts often seem to make the difference between business success and failure. Mr Kirchner has hinted that he will run for president again in 2011. By then Argentines may want to see the back of him.

# The first family's businesses

# Welcome to the Hotel Kirchner

Such a lovely little earner

SET amid natural grandeur, where the southernmost Patagonian steppe meets the Andes and turquoise icebergs bob in Argentina's biggest lake, the small town of El Calafate has become a magnet for well-heeled foreign tourists. It is also the adopted hometown of Cristina Fernández, Argentina's president, and her husband and predecessor, Néstor Kirchner. They own a 45% stake in Los Sauces, one of the town's most expensive hotels. where golf buggies are parked outside and Céline Dion songs are piped through the dining room. The Kirchners also own 98% of Hotesur, a company whose main asset is Alto Calafate, another luxury hotel in the town.

The first family's business dealings have come under scrutiny since the release of the president's official declaration of assets for 2008. This showed an increase in the first family's wealth from \$2.3m in 2003 to over \$12m. During that time neither of the Kirchners had jobs outside politics. According to the declaration, most of their money comes from property deals in Santa Cruz province, where Mr Kirchner was governor before he became president.

In 2008 alone the Kirchners sold 14 properties in Santa Cruz. The most valuable was a plot of land bought from the municipality in El Calafate and sold on for 6.3m pesos (\$2m at the time). Even after these sales, the Kirchners recorded a further 26 properties or plots of land on their books. The document also shows that they owe \$2m to Banco Santa Cruz. the bank privatised by Mr Kirchner and now owned by Enrique Eskenazi (see main story). In addition, the Kirchners are directors of a consultancy called El Chapel. It has been looked at and declared legitimate by the federal anticorruption agency, but nobody knows very much about what it does.



Calafate's charms

The increase in the Kirchners' wealth has been investigated by a judge, who declared that nothing was amiss. Manuel Garrido, a former chief anti-corruption prosecutor, thinks the investigation was incomplete and perfunctory. Mr Garrido resigned in March last year after he found his own investigation blocked by the procurador, an office equivalent to America's solicitor-general that is currently occupied by Mr Kirchner's former personal lawver.

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Health reform

# Seizing the reins, at long last

NEW YORK

After leaving Congress in charge for too long, Barack Obama unveils his own plan

TEALTH reform has been the Obama Hadministration's domestic policy priority for nearly a year, but the president himself has been frustratingly slippery on the topic. Though he has given plenty of speeches about it and discussed various worthy ideas, he has generally deferred to Congress on specific proposals.

Until this week, that is. On February 22nd Barack Obama at long last unveiled his own detailed set of proposals for reforming America's troubled health system. The plan itself does not contain any earthshattering elements; indeed, it is rather similar to a health bill that passed the Senate just before Christmas, But coming as it does on the eve of a bipartisan summit on health reform with congressional leaders hosted by Mr Obama (taking place on February 25th, as The Economist went to press), it looks like a bold but risky attempt to seize the momentum as health reform enters its final phase.

So what exactly does the Obama plan contain? Like the Senate plan, Mr Obama's scheme would use a mix of regulation and subsidies to restructure the health-insurance market so that most individuals are required to purchase coverage and insurers are required to provide it. But seizing on recent popular outrage at rate hikes announced by regional health insurers (California's Anthem Blue Cross set off a firestorm when it announced rate increases of

39% for some customers, for example), Mr Obama's proposal would go further, creating a panel to watch for "unreasonable or

unjustified" increases.

Mr Obama's plan differs in other ways too. To get the final Senate bill passed, Democratic leaders had to cut special deals that reeked of the pork-barrel. For example, labour unions hated a tax on gold-plated insurance plans found in the Senate bill (because their members often enjoy such plans), so dealmakers carved out an exemption for them, Nebraska's Senator Ben Nelson refused to join the caucus unless the federal government paid for his state's extra costs for Medicaid, a government health scheme for the indigent. So now Mr Obama's plan simply extends these special deals to everyone.

This largesse comes at a price, of course, The administration estimates that its bundle of proposals will cost some \$950 billion, a price tag which falls between the cost of the Senate bill (\$872 billion) and the House version (over \$1 trillion). This estimate breaks Mr Obama's pledge to keep any reform effort under \$900 billion. And that \$950 billion figure may yet grow. The Congressional Budget Office, an official agency that is the referee in such matters, said this week that the president's plan simply does not offer enough detail for the agency to determine its probable cost.

Why, after nearly a year of professorial

# Also in this section

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dithering, is Mr Obama sticking his neck out now? The answer is desperation. His detached strategy, adopted in response to the failure of Bill and Hillary Clinton's heavily micromanaged attempt at health reform over a decade earlier, seemed to be working until a few weeks ago. After months of wrangling, the Democrats managed to push (different) reform bills through the House and the Senate; all they needed to do was to reconcile the two bills into a final law. But before they could, the unexpected Republican victory in the recent Senate race in Massachusetts robbed the Democrats of the 60 votes they need for easy passage in the Senate.

That has made it extremely difficult for Democrats to pass health reform this year. But not impossible: Democrats could yet win over a few Republicans, or try to push a modified health-reform bill through Congress using a manoeuvre known as budget reconciliation-which requires 51. not 60, votes in the Senate. Either, analysts agreed, would be a long shot. The betting in Washington, DC, until this week was that health reform was dead in all but

But Mr Obama has not given up. He insisted in his state-of-the-union speech that he would push for reform this year, despite the perils of doing so in the run-up to an election. Ignoring the chorus of derision from the opposition, he has promised to listen more carefully to Republican ideas.

Bipartisanship indeed got a boost this week when 13 Republican senators, including Scott Brown, the new man from Massachusetts, crossed the aisle to help pass a jobs bill crafted by Harry Reid, the Democratic majority leader in the upper chamber. Under the \$15 billion bill, firms that hire the unemployed will get an exemption from payroll taxes on those workers >>  this year. If employers keep new workers on the payroll for a year or more, they get a \$1,000 tax credit.

Could this be a sign that Mr Obama may be able to salvage health reform with Republican help? Probably not. Defection was easier with the Jobs bill because it was a neutered effort (the original House version weighed in at \$554 billion, and the original Senate version at half that), whereas the health bill is a trillion-dollar undertaking.

That leaves Mr Obama with only one option if he wants health-reform law this year: budget reconciliation. Republicans are hittenly denouncing such a possibility as trickery, but there are clear signs that Democrats are getting ready to pursue such a tack if the televised summit demonstrates that bipartiss an agreement is impossible. Mr Reid declared on February 32rd that Republicans should "stop crying over reconciliation as if it's never been done before... Contract with America was done with reconciliation. Tax cuts, done with reconciliation.

Mr Obama is clearly betting that his forceful new tactics will be enough to snatch a spectacular victory from the jaws of near-certain defeat. Because budget reconciliation must be finalised within two months, the issue will at least soon be resolved. Even if health reform fails this year, though, critics can no longer say that this was because Mr Obama refused to enter the scrum. Stuart Butler of the Heritage Foundation, a conservative think-tank, sums up Mr Obama's plant his way. "It's a prelude to going for broke." Others liken him to Capitain Abab pursuing his whale.

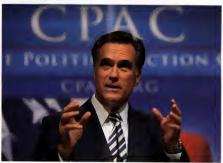
# Mitt Romney and the Republicans

# Fired up, ready to go

WASHINGTON, DC
Mitt Romney takes centre-stage

THE election of a new pope in Rome is a model of procedural transparency compared with the mysterious ways in which presidential candidates emerge in America. But one of many suggestive puffs of smoke that Republicans watch for its end annual meeting of the Conservative Political Action Conference (GPAC). As usual, the combined jamboree and think in that drew thousands of activities from the rightward end of the conservative spectrum to Washington, DC, on February 18th-20th ended with a straw poll in which participants were asked who they would you for sate Republican nomine in 2012.

This produced an unexpected result:



Mitt Romney has an agenda

Ron Paul, the Texas libertarian, came top with 31% of the 2,395 votes cast. The cerebral Mr Paul has an enthusiastic following. especially among students, but many of his ideas-including withdrawal from foreign wars and a return to the gold standard-are well outside the Republican mainstream. That, and the fact that he is 74, make it unlikely that he will make a third run for the presidency (he was a thirdparty candidate in 1988 and unsuccessfully sought the Republican nomination in 2008). So the main impact of the straw poll was to confirm that Mitt Romney, a former governor of Massachusetts, who came second, remains the undeclared race's unofficial front-runner.

As in 2008, Mr Romney, who made a measured and methodical campaign. His speech at CPAC was his first big national political outing for more than a year, but he is about to adopt a higher profile. Next week he launches "No Apology", a 323-page paean to American greatness and a thinly disguised presidential manifesto ending with a 64-point. "Agenda for a Free and Strong America". Perhaps because his 2008 run went awry when flip-flops on moral issues such as abortion made him look like an opportunist, this book dwells chiefly on foreign and economic policy.

With 22% of the votes, Mr Romney's second place in the CPAC poll put him far ahead of the rest of the field. Sarah Palin, a former governor of Alaska and John McCain's running-mate, came third with just 7%, ahead of Tim Pawlenty, the governor of Minnesota, who mustered 6%. Mike Huckabee, a former governor of Arkansas, got only 4%.

It would be a mistake to read too much into these results. With 2012 still distant

and most Republicans concentrating on the congressional mid-term election due in November, the presidential wannabes did not compete all that hard this time. Indeed, Mrs Palin and Mr Huckabee stayed away from CPAC. Besides, the poll itself may count for less than the buzz the would-be contenders created in the audience and media. By that standard, one of CPAC's biggest stars was Marco Rubio, the young and self-assured Cuban-American who is mounting a primary challenge against Governor Charlie Crist to represent Florida in the Senate. Republicans eagerly portray Mr Rubio as a conservative Barack Obama. the fluent son of poor immigrants, embodying a no less inspiring version of the American dream.

The perception that Mr Obama and the Democrats are on the defensive and vulnerable in November has sent an electric charge through the conservative cause. New Gingrich, who led the Republican comeback in the mid-terms of 1994, told CPAC that he expected the Democrats to lose both the Senate and the House in the mid-terms. Dick Cheney, a former vice-president, predicted that Mr Obama would be a one-term president.

Before they settle on a candidate, howwer, Republicans will need to resolve ever, Republicans will need to resolve some issues of their own. As the vote for own ment now stretches all the way from the centre-right to radical libertariansim. And not the tea-party movement, the populisit swept through many states this year, has a swept through many states this year, has a risks pushing Republican candidates too a far to the right for the tast of mainstream voters. That is a danger the methodical Mr Romney will be anxious to avoid.

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# Grading the dismal scientists

WASHINGTON, DC

How good is the Council of Economic

Advisers?

FEW disagreed with Christina Romer, who chairs America's Council of Economic Advisers (CEA), when she wrote recently that the early 1960s were the CEA's "glory days". Bake 1964, for instance, James Tobin was a member, Robert Solow was a staff economists, and consultant economists included Kenneth Arrow and Paul Samuelson. All four went on to win Nobel prizes. But fewer economists agreed with Ms Romer's assertion that the CEA's staff in 2009 was of a calibre not seen since those stars-tudded days.

Greg Mankiw, a Harvard economist who chaired the CEA in 2003-05, points out that the council packed considerable intellectual firepower under Martin Feldstein in 1982. Three of its members or staff-Larry Summers (now Barack Obama's chief economic adviser), Mr Feldstein himself and Paul Krugman-have won the Clark medal, a prize for the best American economist under the age of 40. Mr Krugman went on to win the Nobel prize. Mr Mankiw does not think the present lot match up to the class of 1982. He suggests measuring the academic influence of CEAS by how often their economists have been cited by their peers.

The Economist decided to see how different councils fared, through a widelyused index that ranks the top 5% of academic economists worldwide by citations to date. This is an imperfect measure, favouring members of older CEAS, who have both been active researchers for longer and whose influence was presumably boosted by their time on the council. Still, of the present CEA's three members, both Ms Romer and Austan Goolsbee make the cut. In comparison, all three members of Mr Mankiw's CEA, and the one chaired by Janet Yellen during Bill Clinton's later years in office, are on the list. More impressive is the fact that two of the seven senior economists attached to the present CEA are also among the top 5% of economists by citations, a rare distinction.

Measured by citation scores per team member, though, the present Cas A does not stand out as much. The average score for 2009 works out at 29t, much higher than 2008's 185 (despite multiple citations for the then chairman, Edward Lazear) but well below the average for Mranktw's team of 2003, when the average was 64, The count for 1982's "dream team" is an impressive 755. For 1993, when Joseph Stiglit and Alan Blinder were members of the The economy

# Back to the crash

CAMBRIDGE, MASSACHUSETTS

The American economy has just had its worst decade since the 1930s

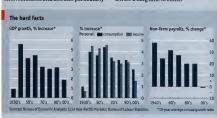
THE headquarters of the National Bureau of Economic Research (NEER), on Massachusetts, looks out on a row of shops. These used to be thriving places, where people bought furniture and other household goods. But collapsing property prices, foreclosed homes and soaring unemployment, all effects of the recession which the NEER announced on December 154 2005, have taken their toll. Many shops are now empty, with "For Rent" signs forlowing has the with "For Rent" signs forlowing has the work of the ment of the

But the misery stretches well beyond the recession, as our charts below make clear. Taking the decade between 2000 and 2009 as a whole growth was slower than in previous decades. These figures, tompiled by Christopher Wood, a former Journalist with The Economist and now a strategist at Casa, a Hong Kong-based investment group, provide stark reminders of various aspects of the poor performance the American economy demonstrated during the "noughties".

Real ODP in America grew by an average of 19% a year during the 2000s. This may not sound all that terrible, especially for a decade that saw one short recession and another particularly

deep and long one. But it is the economy's worst performance for a long time. During the previous six decades, average growth was 39% a year. Only the 3900when growth was a mere 09% a yearwere worse. And America's population is growing smartly, so to Dre per head has growing smartly, so to Dre per head has a growing smartly, so to Dre per head to Dre as a whole. The story is much the same when the growth in Americans' personal consumption during the ten years to the end of 2009 is compared with previous decades. Again, only the 1930s were worse.

In terms of employment growth, the 2000s were also a lost decade. In the years between 1940 and 1999 the number of Americans employed outside farming grew by an average of 27% each decade. In the one just past it fell by 0.8%. In January this year, the number of people who had been jobless for more than six months reached 6.3m. And though the economy has grown for each of the past two quarters, the unemployment rate has only just begun to inch downwards. Though the recession is now supposedly at an end, the pain of the noughties' miserable economic performance will be felt for a long time to come.



CEA, and the senior economists included the eventually much-cited David Cutler and Matthew Shapiro, the average score is 736.5. Ms Romer's team is handicapped by our use of lifetime citation counts, but the difference is still striking.

Citations, of course, are an even more flawed measure of quality for staff economists, who tend to be younger. So we ranked the past ten years' CEAs by the average quality of the economics departments where their senior economists got their Phos. This too is imperfect, as the rankings do change, albeit slowly. But by this measure, the present cohort of senior staff economists is the second-best-qualified in academic terms of any of the past ten CEAS. It is beaten—but only bately—by the staff assembled by Glenn Hubbard for George Bush junior in 2001. It does even better than Mr Feldstein's 3982 team. If part of any CEA's influence comes from the academic prestige of its members and staff, he present council has little to worry about. But it is not yet the most brilliant since the 3605. Sorry. MS Nome.

#### Arkansas politics Democrats beware

A spirited scramble for suddenly open Democratic seats

ARKANSAS is the only southern state whose representatives have remained almost monolithically Democratic since Reconstruction in the 1860s. So Blanche Lincoln, a popular Democratic senator, seemed likely to cruise into a third term this year, Then, last December, Mrs Lincoln abruptly found herself in a tight spot, wavering so chronically over health reform that liberals decried her lack of guts, conservatives marked her as vulnerable and independents searched for an alternative. Now she may face Bill Halter, Arkansas's lieutenant-governor, in a May primary. Polls show that he would probably win.

A handful of Republicans are fighting to oppose Mrs Lincoln, including, until he recently dropped out, the founder of the Arkansas tea-party movement, John Boozman, a Republican congressman whose late brother Fay ran against Mrs Lincoln in 1998 and lost, also recently announced his intention to jump into the Senate race. Mr Boozman is seen as the establishment candidate, which may not endear him to the tea-party folk.

With Mr Boozman's entry a House seat comes up in north-western Arkansas, the state's most conservative area, which is home to Wal-Mart and Tyson Foods, Republicans have held it since 1967. There will be a vacancy, too, in Little Rock and central Arkansas, where Vic Snyder, one of the most liberal members of Congress, has announced his retirement for family reasons. Yet another open seat vawns in the impoverished Delta region in the south-east, where Marion Berry, a Clinton administration official who won his seat in 1996, also bowed out of a re-election bid in late January for health reasons. Polls show that Mr Berry would easily have won re-election. The district has been Democratic since 1891. But in the 2008 presidential contest John McCain, the Republican, received nearly 60% of the vote. And since his announcement, Mr Berry has ridiculed Barack Obama's administration.

Democrats still hold the statehouse, the constitutional offices and the governorship. The governor, Mike Beebe, is seeking re-election and has no serious opposition. But Arkansans are not one-party loyalists. They voted for Mr McCain over Mr Obama by 20 percentage points in 2008. George Bush junior won the state twice.

After Scott Brown's victory in Massachusetts, the Republicans see Arkansas as a place to make gains. Eager young candi-



Worrying times for Blanche Lincoln

dates are jumping in. Tim Griffin, a Bush White House alumnus who had a brief and controversial stint as a United States attorney, is running for Mr Synder's House seat in central Arkansas. Princella Smith, a conservative in the Newt Gingrich mould, black and only 26, will run in the heavily Democratic district held by Mr Berry in the Delta, If she wins, she will be the first black Republican woman in Congress, Sarah Palin made an appearance last week at a fund-raiser to help the party out.

A little money goes a long way here. Media coverage is comparatively cheap, and the state is small, allowing door-todoor campaigning. A swing of several thousand votes can make a difference. And then there is the personal satisfaction, every day more likely, of turning Bill Clinton's home state red.

#### Schools and testing

### The finger of suspicion

Is too much weight given to testing?

N A narrow street of modest bungalows in south-western Atlanta, Walter L. Parks Middle School stands out: a broad, white building of unmistakably institutional appearance in a district of woodpanelled and redbrick domesticity. Parks stands out for another, sadder reason, too. A statewide review of standardised tests taken by pupils in Georgia's state schools in the spring of 2009 found that widespread cheating may have occurred in 191 elementary and middle schools in Georgia-including 69% of such schools in Atlanta. The review, which looked for unusu-

ally high numbers of wrong-to-right erasure marks, pointed the finger at nearly 90% of Parks's classrooms-more than in any other school in the state.

By themselves, of course, the numbers prove nothing, but the number of changed answers is striking. The average number of wrong-to-right changes per test was around two. Some classrooms showed tests with 13 times as many. The company that carried out the analysis flagged all classrooms that showed a number of wrong-to-right erasures exceeding three standard deviations from the mean. The probability of that happening without manipulation is one-tenth of one per cent.

All this comes after years of solid improvement in Georgia's public schools. In 2005, 83%, 80% and 68% of the state's eighth-grade (roughly, 13-year-old) pupils passed reading, language-arts and maths tests; by 2009, those numbers had risen to 93%, 92% and 70%. In Atlanta, students' scores improved in all grades and subjects for eight years continuously to 2008. Kathy Cox and Beverly Hall, the school superintendents of Georgia and Atlanta, have won praise for improving test scores and graduation rates.

But in 2009 13 teachers in Georgia were punished for cheating, including the principal and assistant principal at one elementary school. They changed answers on completed tests for fear that otherwise their school would not make "adequate yearly progress", as required by the federal No Child Left Behind (NCLB) law. A school that fails to do so for two years running must offer pupils the opportunity to transfer to better schools. Teachers and administrators can be fired, and the school can be taken over by the state.

And therein, say many education specialists, lies the problem: the immense weight that NCLB places on a single test. Teachers spend an increasing amount of time "teaching to the test", because they know the results may determine their futures. A study of the Chicago school system conducted for Harvard's Kennedy School found that the more weight given to tests, the more likely alteration becomes. Verdaillia Turner, who heads Georgia's and Atlanta's teachers' unions, complains that the tests have turned teachers into "little robots. The best and brightest do not go into teaching any more."

This may change: Barack Obama and Ame Duncan, the education secretary, have long been critical of NCLB. This week Mr Obama noted that 11 states had lowered their standards to give an illusion of students' progress. A consortium of 48 states (Texas and Alaska sat out) has been drafting a set of common standards in maths and reading, and Mr Obama has announced that states will have to adopt higher ones if they want more federal funds. Money is a great motivator.

### Fading are the peacemakers

LOS ANGELES One of California's most powerful political forces may have peaked

ON NOVEY used to be the most important man in Californian politics that no one had ever heard of. As president of California's prison-guards' association from 1982 to 2002, Mr Novey turned that union into the most powerful in the state. On his watch, California built 21 new prisons. Mr Novey's organisation also sponsored or supported tough laws that helped to fill those prisons to almost twice their capacity at times. It helped elect two Republican governors and one Democratic one, besides countless state legislators. "We sent candidates 13 questions," he happily recalls, ranging from their stance on the death penalty to labour issues.

He is especially proud that he won his members by far the most generous wages and benefits that prison officers get anywhere in the country. Under the last deal he negotiated, which expired in 2006, the average member of the California Correctional Peace Officers Association (CCPOA) earned around \$70,000 a year and more than \$100,000 with overtime. (Since then, wages have gone up again.) Mr Novey negotiated pensions of up to 90% of salary starting at as early as 50-more than teachers, nurses or firefighters get, and matched only by the state's highway patrol.

This is the legacy that many people now blame for a good part of California's fiscal crisis. Visiting the state earlier this month, Anthony Kennedy, a justice on the Us Supreme Court, said it was "sick" that

the CCPOA had sponsored the "threestrikes" law of 1994, a notorious sentencing measure that contributes to prison overcrowding. The state's prison agency is permanently at war with the union and accuses it of obstructing reform. California's governor, Arnold Schwarzenegger, had to climb down from open confrontation with the CCPOA in 2005, but is now proposing to privatise much of the state's prison system precisely to evade its grip.

The CCPOA (which did not reply to The Economist's repeated requests for interviews) returns the hostility. In its view, prison guards "walk the toughest beat in the state", as its motto has it. In the Peacekeeper, the union's newspaper, the editor writes that guards "protect the good people of the world from the bad people". while another entry reminds guards that "if you have been gassed and exposed to blood-borne pathogens...know that every minute counts." This is no ordinary job, the union insists, and its members deserve a good deal.

Yet the CCPOA's influence may be waning, says Adrian Moore at the Reason Foundation, a think-tank in Los Angeles. In Mr Novey's days, the union might have won an exemption from the furloughs of state workers now necessary because of the budget crisis; these days, it appears unable to. Barry Krisberg at Berkeley's law school says that the guards "have priced themselves out of the market". They can't push for even tougher laws, he says, at a time when prisons are so overcrowded that a federal court is threatening mandatory inmate releases. And they can't demand even more generous benefits during a fiscal catastrophe. The iron triangle-union, prison builders and Republican lawmakers-is coming apart, he thinks. Mr Novey agrees; and many Californians are hoping they are right.



How much longer will they hold the keys?

## Protecting the

America's children

## weakest

The recession may hurt America's vulnerable children

VER the past few years, a growing number of America's parentless children have found homes. In 2008 there were 463,000 children in foster care, a system where the government places orphans and children with parents who are abusive or unable to take care of them in the care of guardians. That is 11% down since 2002, and great news. But experts worry the trend might now go into reverse.

Some welfare advocates fear that the bad economy may cause parents with fraved nerves to abuse and neglect their children, and even cause some to abandon them. Already, several hospitals across the country have reported an increase in the frequency and severity of injuries from

The most recent national data on child welfare available dates from September 2008, before the recession was in full throttle; data from 2009 won't be reported until later this year. But there is some question about whether the data, when reported, will even be accurate. Many states and counties, in an attempt to cope with their fiscal straits, are considering cutting down on child-welfare services, such as benefits for foster parents and the number of social workers they employ. The average workload of caseworkers had already increased by 7% between 2006 and 2007, says Mary Hansen, of American University in Washington, DC. With more budget cuts, there will be fewer caseworkers to take notice of abuse and neglect, she says, and it will be more difficult to find someone to report problems to, potentially skewing the collection data.

In the meantime, more parents are trying to keep their families intact. New York Foundling, an agency in New York, runs a crisis centre, where parents can leave their children for up to three weeks. Requests for beds increased 20% in the last year. Safe Families, a non-profit outfit that places children in temporary homes with volunteer families until jobless parents can get back on their feet, saw the number of children it serviced triple in 2009, and it expects that number to double again in 2010.

Most people are asking for help from Safe Families, says the organisation's founder. David Anderson, because they don't want to risk losing custody, as they would if they put their kids into foster care. Thankfully, the recession has actually spurred more volunteers to come forward, says Mr Anderson.

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## Lexington | Is Barack Obama tough enough?

Conservatives call him too weak to be a warrior. Tell that to the Taliban



If THERE is one thing conservatives agree on, it is that Barack Obama is not tough enough to be commander-in-chief. Some insinuate that he doesn't love America enough to defend it wholeheartedly. Never before has a president "gone before so many foreign audiences to apologise for so many American misdeeds, both real and imagined," grumbles Mitt Romney, a once and no doubt future Republican presidential candidate. Even France is lecturing America on the dangers of appearement, which is like "AIG lecturing us on financial responsibility", scoffs Tim Pawlenty, another aspirant. Mr Obama is "the groveller in ,chief", says Michelle Malkin, a conservative blogger.

An easy way to raise a cheer at the Conservative Political Action Conference in Washington last week was to bash the president for letting terrorists get "lawyered up". To tumultuous applause, Marco Rubio, a young Republican firebrand from Florida, urged a more robust approach: kill the terrorists or capture them. "get useful information from them" and then "bring them to justice...in front of a military tribunal in Guantánamo, not a civilian courtroom in Manhattan." An anti-Obama bumper-sticker asked: "So you're for abortion but against killing terrorists?"

Most of these barbs are bunk. Yes, Mr Obama favours trying Khalid Sheikh Mohammed, the alleged mastermind of September 11th 2001, in a civilian court. But that is not a sign of weakness. Several terrorists were successfully prosecuted in civilian courts under George Bush. And though Mr Obama is willing to admit his country's failings, he is quite ruthless about blowing its enemies to scraps. American drones fired missiles at suspected Taliban and al-Qaeda leaders in Pakistan's tribal areas 55 times last year, killing hundreds of jihadists and who knows how many civilians. This year, the killing has accelerated; so far more than a dozen strikes have been reported. Mr Obama orders assassinations at a far brisker pace than George Bush ever did. For some reason, his habit of blowing up alleged terrorists and bystanders from the air causes less global outrage than the smothering of a lone Hamas operative, allegedly by Israel, in a hotel room in Dubai. But whether you think it justified or not, it is hardly evidence that the president is "against killing terrorists".

After more than a year in power, Mr Obama has still not figured out what to do with terrorist suspects captured on foreign soil. He has not yet fulfilled his promise to close the prison at Guantánamo Bay because he does not know what to do with the remaining inmates. Some are deemed too dangerous to release, but cannot easily be prosecuted. In some cases, evidence was obtained by coercion; in others, through intelligence sources that the administration does not want revealed in court. Mr Obama will not rule out holding them indefinitely without charge, but he knows this makes America look bad. He does not want to add to the problem by bringing more foreign jihadists into American custody. Instead, American forces are either killing them or letting less squeamish allies detain them.

In September, for example, America tracked down a muchwanted terrorist in Somalia. Saleh Ali Nabhan was accused of helping to blow up the American embassies in Kenya and Tanzania in 1998, and was thought to have been the main liaison between al-Qaeda and its Somali ally, al-Shabab. Had he been captured and questioned, he could have been a mine of useful intelligence. But there is no functioning Somali government to hand him over to, so American helicopters vaporised him. This seems to be the rule, not the exception. A recent Washington Post investigation of Mr Obama's war against al-Qaeda leaders abroad found "dozens of targeted killings and no reports of highvalue detentions" by American forces.

Suspected terrorists caught on American soil are of course taken into American custody. But those caught in Iraq are swiftly handed over to the Iraqis. Those spotted in Pakistan are detained by the Pakistanis-as several senior Taliban commanders were in recent weeks, thanks in part to American intelligence. America maintains a prison at Bagram air base in Afghanistan, but this will be turned over to the Afghans by the end of the year. None of these countries has a reputation for comfortable cells and polite jailers. In short, it is far from clear that Mr Obama's policies have led to gentler treatment for terrorist suspects abroad. The opposite may be true. Hence the howls of anguish from human-rights activists who once thought Mr Obama was their man. Hence, also, the urgent need for a coherent detainee policy.

#### Man of steel

More generally, the notion that Mr Obama does not take seriously his responsibilities as commander-in-chief is risible. In Iraq, he is methodically withdrawing American troops as the country becomes more capable of self-government. In Afghanistan, admittedly after dithering for far too long, he has picked a sound strategy and is seeing it through. The surge of NATO troops into Helmand province appears to be working, at least so far. As for Iran, Mr Obama could always follow Sarah Palin's advice and declare war on the mullahs so that people "decide, well, maybe he's tougher than we think". But that might have, well, negative consequences. Instead, he is trying to persuade China and Russia to go along with stiffer sanctions to hinder Iran's nuclear ambitions. This may or may not work. The omens are not good: Iran announced this week a plan to build two new uranium-enrichment plants inside mountains, where they will be harder to bomb. James Lindsay and Ray Takeyh argue, in Foreign Affairs, that Mr Obama should be thinking hard about how to contain Iran after it goes nuclear. The success of Mr Obama's foreign policy will depend on his ability to choose between finely balanced evils. If he fails, it will not be for lack of steel.

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#### **Corruption in Brazil**

## The money trail

SÃO PAULO

Many corruption scandals stem from the high cost of politics, and unrealistically tight campaign-finance rules

TX/HERE money, politics and scandal meet in Brazil, there is usually a camera somewhere nearby to take the pictures that will make any later profession of innocence ring hollow. Roseana Sarney's presidential bid was killed in 2002 when images of half a million dollars in banknotes found at her husband's office were broadcast on television. But the scandal that has been rumbling on since the end of November in Brasília has bested all previous efforts in this genre.

The secretary of José Roberto Arruda, the governor of the Federal District, was filmed handing over bundles of cash to his boss's various allies. They stuffed it down trousers, into handbags and, when other pockets were full, into socks, But this film has a surprising ending. On February 11th Mr Arruda was placed in police custody, to await trial for coercing a witness and attempting to destroy evidence. (His deputy governor has resigned over the affair, leaving the capital leaderless.) This is unusual in a country where politicians accused of corruption often lose nothing more precious than their mandates or their dignity-and even then they seem to bounce back quickly.

Fernando Collor, president from 1990 to 1992, resigned to avoid impeachment for corruption but is now back in the senate. Nobody went to prison for the mensalão, a vote-buying scandal that nearly destroyed President Luiz Inácio Lula da Silva's government in 2005 and which also featured money in unusual places (a party hack was arrested at an airport with \$100,000 in his underwear and more cash in his luggage).

Ms Sarney is now a state governor. Her father, José Sarney, a former president, is clinging to his job as the senate's leader, despite claims of maladministration. His predecessor, Renan Calheiros, remains in the senate, despite corruption claims. In their case, nothing has been proven.

Brazil is probably no more corrupt than other countries of similar size and wealth. It came out better than China and India and a long way ahead of Russia in the latest index of perceptions of corruption compiled by Transparency International, a German NGO, Brazil is blessed with competitive and aggressive media and tenacious institutions that investigate such scandals, revolving around the publicprosecutor's office, a semi-autonomous part of the federal government and its local equivalents. This scrutiny has a price: the government thinks that another watchdog, the audit tribunal, is holding up spending on infrastructure unnecessarily.

In Mr Arruda's case it was a public prosecutor who collected the damning evidence. In exchange for more lenient sentencing Duval Barbosa, an aide to Mr Arruda, allowed himself to star in 30 videos in which he handed over cash to allies in the state legislature. The money, as is usual in such scandals, is alleged to have come from companies that had contracts to provide services to the government of the Federal District. Mr Arruda's team claimed that the money was to buy panettones for Christmas, or comprised legal campaign donations.

Transparência, a Brazilian NGO, reckons that although some of the money uncovered in such scandals involves bribes, much of it goes towards funding election campaigns. Brazil has strict campaign-finance laws, Gilberto Kassab, the mayor of São Paulo, is under investigation for receiving a disallowed donation during his latest campaign. He denies any wrongdoing. He was suspended and then temporarily reinstated pending the outcome of the investigation. Last year several state governors had their mandates ended for similar misdemeanours.

Campaigns are particularly expensive in a country where the electoral districts encompass an entire state or city. As in the United States, the sheer size and reach of government in Brazil mean that plenty of businesses feel that they have to remain on good terms with a wide range of politicians of all stripes by providing campaign donations.

Gilmar Mendes, the president of the Supreme Court, said this week that the prosecution of Mr Arruda showed that Brazil is making progress in the fight against political corruption. That may be optimistic. A more gloomy view would be that Mr Arruda was the governor of a small state and a representative of a party, the conservative Democrats, that is of declining importance. And his alleged skulduggery went on under the noses of the public-prosecutor's office. A more practical lesson from the episode to aspiring politicians might be to check all pot plants, bags and office furniture for hidden cameras before dealing in large bundles of used banknotes.

#### Political satire

LIMA

Jaime Bayly's breath of fresh air

WHEN it comes to Peruvian writers seeking the presidency, history threatens to repeat itself as farce. In 1990 Mario Vargas Llosa, one of Latin America's foremost novelists, enraged by a government of the common threatens of the common threatens

This month laime Bayly, a writer of humorous novels of rather lesser stature who is also a television talk-show host, has alaunched his candidacy for a presidential election due in April 2011. Like Mr Vargas Llosa, Mr Bayly is a liberal. But he is a highly by inreverent one. Mop-haired and rumpled, he talks freely about his bisexuality the says that at the moment he prefers women but that this might once again change, his taste for mood-altering pills that are apparently damaging his liver; his past cocaine habit and his continuing fondness for an occasional joint. His televison programmes, broadcast in Colombia

and Peru (he previously worked in Miami), mercilessly mock Venezuela's leftist president, Hugo Chávez.

His policies are just as politically incorrect. He favours legalising abortion and same-sex marriages. He would eliminate centuries-old privileges enjoyed by the Carbolic church. He wants to abolish the armed forces and spend their budget inproving state schools. In another constitutional proposal—this one smacks of populism—he would cut the number of lawmakers in Peru's single-chamber Congress from 120 to just 25. He defice Peruvian nationalism by saying that the government should not have filed a claim gainst neighbouring Chile over their maritime-border dispute, because it will not win.

A survey this month by Ipsos-APOYO, a polling firm, shows there is no clear favourite in a crowded field of presidential wanabees. Only 22% backed the leading candidate, Luis Castañeda, the mayor of Lima. Mr Bayly has the support of 5%. He appeals to young voters, and could tap into the national frustration with traditional politicians. But he is from the Lima upper class. It remains to be seen whether he can appeal to poorer Peruvians, Or indeed whether he will run. Humour, seriousness and narcissism fight for supremacy within Mr Bayly's ego. He may have some fun keeping Peru guessing. In a recent weekly column he mused about turning 50 in 2015. and said that by then he plans to write, travel, have sex and smoke pot-not be "president of Peru or any other tribe."



#### In ever-closer union, divided we stand

It's a tough life being a Latin American president nowadays, with so many summits to go to. The latest, involving 32 countries of Latin America and the Caribbean, took place is week in Playa del Carmen, a resort on Mexico's Caribbean coast. The leaders agreed to set up a permanent regional body. That seems sensible. But there is a subtext despite protestations to the contrary, the new body will be a rival to the Organisation of American States, which includes the Inited States and Canada, but not Cuba. It also looks like a Mexican riposte to the Brazilian-inspired South American Union. And all this escalating summitty takes place as Latin American is more divided than ever, between the liberal democracies on the one hand and Venezuela and its allies on the other, with Brazil trying to appear over the divide. Time, perhans, for fewer but better summits.

Canada's Mohawks

## Get out of our canoe

AWATT0

When a Canadian is not a Canadian

THE dozen chiefs who make up the Mohawk Council of Kahnawake expected criticism when they began presenting eviction notices this month to 25 non-natives living on their 13,000-acre (5,260-hectare) reserve just south of Montreal, They hoped Canadians would understand their desire to protect a threatened language and culture, and refrain from interfering in internal Mohawk affairs. But many saw their action as a racist and illegal denial of Canada's constitutional Charter of Rights and Freedoms. Despite centuries of coexistence, the First Nations, as Canada's indigenous people call themselves, and other Canadians still live in mutual incomprehension. For a start the Mohawks do not see themselves as Canadians

The council passed a bylaw in 1984, supported by the majority of the reservation's 8,000 residents, which stipulated that a person must have at least four Mohave great grandparents to live or own property there. Any Mohawk who marries a nonnative must leave. "Everyone knows the law: if you marry out, you stay out," says Joe Delaronde, a spokesman for the council. "If we don't protect who we are, we will become Canadian citizens."

Not such a terrible fate, you might think. But the leaders of many First Nations have been fighting assimilation for centuries. The Kahnawake reserve was originally set up by the French in 1716, when the Mohawks were their allies against the British. Shortly afterwards, some French traders were asked to leave. There have been many evictions since. A more prosaic reason is that First Nations receive federal money for social services only for officially registered natives. Yet there has also been a long history of intermarriage and adoption of non-natives, "Everyone in the community has mixed ancestry," says Matthieu Sossovan, an anthropologist,

Maturieu Sossoyat, an afundopologist.

Canada's minister of Indian affairs administer of Politary and Indian affairs administer of Indian affairs and Indian affairs and Indian affairs af



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Tackling Japan's bureaucracy

## Floundering in the foggy fortress

The DPI is finding that it needs to be friend its bureaucrats, as well as bash them

OSUKE KONDO, 44, is one of those I Young Turks in Japan's five-month-old government who took office eager to rein in Tokyo's illustriously educated cadre of senior civil servants. What distinguishes Mr Kondo, however, is that he seems poised to succeed in this goal. So far the rest of the government has seemed more inclined to work with the bureaucracy than against it.

For Mr Kondo's first target, he aimed high. He took on a man he refers to as "the Last Samurai", Kazuhiko Takeshima. Mr Takeshima is the epitome of the wellrounded establishment figure. An economics graduate from the prestigious University of Tokyo, he has headed the tax agency and since 2002 has run Japan's Fair Trade Commission. Mr Takeshima has made a good name for himself as a trustbuster. But for years he has resisted efforts to allow firms to appeal in court against punishments for antitrust violations. In effect, the commission acts as prosecutor and judge. As Mr Kondo notes wryly: "It's an antitrust authority, but it keeps all the authority to itself."

Within a few months, Mr Kondo had won cabinet support for changing the antitrust law and curbing Mr Takeshima's power. He hopes an amended law will be approved in the current session of the Diet,

or parliament. This would make it one of the rare cases where the ruling Democratic Party of Japan (DPJ) has fulfilled its popular manifesto pledge to bring powerful elements of the bureaucracy to heel. As a fringe benefit for the DPJ, which tends to back Japan's trade unions, it also wins the party friends in business.

Nonetheless, Mr Kondo, a former business journalist who once wrote a book on bureaucrats, has realised how valuable his own mandarins can be. As a deputy minister in the Ministry of Economy, Trade and Industry (METI), he has six policy areas to oversee, which range from global warming to the troubles of Toyota, the carmaker. In addition, he helped draw up the government's ten-year economic-growth strategy, released in December.

He says his workload (from 7am to nom, he groans) is made heavier by the shortage of DPJ politicians appointed to government posts: atop a civil service of 290,000, there are just 63 DPI officials in central-government positions. It is so easy to get bogged down in day-to-day administrative work that there is little time for strategic policymaking. This is especially true when the Diet is sitting; government officials have to attend every day.

Mr Kondo's experience will resonate in other corners of Kasumigaseki, Japan's Whitehall in central Tokyo that is the seat of the Japanese bureaucracy and whose name literally describes how many Japanese think of it-a Fortress of Fog.

The DPI came to power in September promising to break the disreputable triangle linking the Liberal Democratic Party (LDP), the bureaucracy and big business, This triangle helped keep the LDP in power for almost 55 years. In its crassest form, in the booming 1980s, the model plumbed the depths of corruption and bad governance. Business lobbied for contracts and support by pouring money into the party's coffers and the mandarins' pockets. The cash won the party elections and feathered the bureaucrats' nests. With the LDP's blessing, the mandarins made policy, to be rubber-stamped by the cabinet. Hence, the civil service wielded enormous power. However, it also squandered much of the prestige it had enjoyed for upholding a spirit of public service that dated all the way back to the glory days of the samurai era in the 17th-19th centuries.

The DPI's pledge on taking office was to make policy decisions itself and ensure bureaucrats acted on those. In policymaking ministries such as METI, the Ministry of Finance and the Ministry of Foreign Affairs, civil servants say that by and large the transition has occurred smoothly and information has flowed easily between elected and non-elected officials.

Things are different, however, in parts of government closely associated with the LDP's former largesse, such as the agriculture, transport, and construction ministries. When Seiii Maehara, the transport minister, forced Japan Airlines (JAL), the national flag-carrier, into a court-administered bankruptcy, he reportedly had to >> If flout the wishes of his senior civil servants. He has also confounded them with his attempts to rethink the loss-making airport system. Japan has a staggering 97 airports, some planned on the basis of fanciful traffic assumptions made by bureaucrats who wanted a retirement sinecure. They got their golden parachute, or amakudari (descent from heaven). JAL, forced to fly to their white elephants, got deeper into debt.

As Japan heads towards upper-house elections in July, some expect the DPJ to make a more public spectacle of bureaucrat-bashing. Support for the government has tumbled because of financial scandals surrounding Yukio Hatoyama, the prime minister, and Ichiro Ozawa, the DPJ's secretary-general. A candidate backed by the party suffered a stinging defeat in an election for governor of the southwestern prefecture of Nagasaki on February 21st. On the same day it lost heavily in a mayoral election in the Tokyo district of Machida City, home to many salaried workers who were considered a mainstay of DPI support in last August's general election.

#### I'm a bureaucrat, get me outta here

Administrative reform may not sound like a vote-winner ahead of this summer's elections. But one of the DPI's few triumphs in its first months in office was to do so in a way that suited Japanese tastes-as television drama. According to opinion polls, the public delighted in the spectacle last November of DPI officials hauling civil servants into a Tokyo gym to justify, under the glare of TV spotlights, their requests for budget allocations.

Earlier this month Mr Hatoyama appointed Yukio Edano, who helped lead these waste-busting efforts, as his new administrative-reform chief. He will shortly lead a similarly high-profile drive to tackle excessive spending in state-owned firms, another bureaucratic bunker. What is more. Mr Edano is a well-known critic of Mr Ozawa, the scandal-scarred secretarygeneral. The higher his profile, the more it may help offset the electoral liability that Mr Ozawa has become for the DPJ.

But to solve Japan's most pressing problems, such as debt and deflation, political reality-TV is not enough. It needs joinedup policymaking, and Japan's bureaucrats and politicians are both still hopelessly short on remedies. The finance ministry blames the Bank of Japan for failing to tackle deflation. The central bank blames lax fiscal policy for the country's debt.

As one frustrated civil servant puts it, the DPJ has yet to find a way to outsource most of the "busy work" to bureaucrats, so it can focus on such big-picture issues. "After all, bureaucrats now have plenty more time on their hands," he says. The DPJ may finally have seized power. For Japan's sake, it now has to learn the delicate art of delegation.

#### India's Naxalite insurgency

### Not a dinner party

DUILI WADS India's Maoist guerrillas carry out two slaughters, then offer a truce

SHORTLY before midnight on February 17th residents of Phulwari, a village in India's northern state of Bihar, were roused by gunfire, explosions and a shrieking mob. It was led by a few of the Maoist guerrillas encamped on a wooded ridge outside the village. Wearing camouflagegreen uniforms, they carried assault rifles and explosives. Around 100 rival villagers, of the locals' own Kora tribe, came with them, with bows and arrows and a few small children.

Peeping from his mud hut, Kashi, a middle-aged tribal, considered loosing off a few retaliatory arrows, dipped in poison. "But there were too many," he recalled this week, standing beside the heap of fine, grey ashes that was his home. His aunt and nephew were incinerated inside it. Kashi's brother-their husband and father-was shot dead while trying to flee with him. In all, 12 villagers were killed that night and around 30 houses destroyed.

The destruction was selective. Most of Phulwari's mud-and-thatch dwellings are untouched. Scattered patches of ash show where some families were singled out. Why is unclear. The villagers, most of whom have now left Phulwari, say they had angered the Maoists by refusing to donate a man or woman per household to them. But there is a rumour that, maybe after the guerrillas raped a woman, some villagers killed eight Maoists with their arrows. Kashi says he was among them; then retracts, "We are very scared," he says.





That is understandable. The guerrillas are believed to have moved into Jharkhand state, across the wooded ridge, but may return. The state police, 30 of whom have been deployed to Phulwari, are little deterrent. A nervous-looking lot, they are no match for Maoist marauders toting weapons stolen from (or sold by) their peers. Constable Arvind Kumar, pot-bellied and with an inveterate slouch to show for his 18 years in uniform, says he has practised firing his rifle on only three occasions.

Nor is this force likely to remain in Phulwari long. With 50,000 policemen for a population of around 100m-or 50 per >>



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>100,000—Bihar has one of the most overstretched forces in India. It is also, despite great recent improvements in its policing, one of the most criminal states: plagued by kidnappers, as well as an insurgency that to some degree affects 23 of its 38 districts.

Yet the Maoists are much stronger elsewhere, Boasting an estimated 14,000 fulltime guerrillas, and many more semitrained sympathisers, they loosely control tracts of Iharkhand, Orissa and Chhattisgarh. They have also overrun a smaller, but spreading, area of West Bengal, where the Maoist struggle began in 1967-in the village of Naxalbari, from which the guerrillas, or Naxalites, take their name. On February 15th the Maoists stormed a camp, killing 24 Bengali police. The government estimates that they have influence in over a third of India's 626 districts, with 90 seeing "consistent violence". According to the Institute for Conflict Management, in Delhi, the insurgency cost 998 lives in eight states last year-compared with 377 lost in the better-known conflict in Kashmir.

The government in Delhi is alarmed. Its home minister, Palaniappan Chidambaram, has promised to deploy an additional 15,000 centrally trained police to the six most affected states by April-taking their number to around 75,000 in all. He has also badgered the state governments to make more aggressive use of them. They have done so, but splutteringly. Operations in the southern part of West Bengal have mainly underlined that the insurgency is more entrenched there than was previously thought. The state's main opposition Trinamul Congress party, a member of the coalition government in Delhi, has meanwhile criticised the anti-Naxalite operations. A state election is due next year and it may be looking for electoral support from the Maoists, of a kind that helped bring Jharkhand's ruling party to power last year. On February 21st Jharkhand's chief minister, Shibu Soren, promised to end operations against the insurgents and "accept their justified demands".

This adds up to rather less than the sweeping offensive reported by India's press. Butti seems to have put the wind up the Nazalites. Responding to an invitation from Mr Chidambaram for talks, their miliary chief, Koteswara Rao, known as Kishenji, was reported this week to have offered the government a 72-day truce, from February 25th. Mr Chidambaram appeared underwhelmed. He issued a fix number for the Maoists to send him their promise to abjure violence and enter talks, with "no ifs, no buts and no conditions." But if the Maoists show willing, the gov-

ernment will find it hard to refuse them.

Yet the prospects for a negotiated end to the conflict look poor. The Naxalites claim to be fighting for better treatment of marginalised tribals but deny the government access to areas they control. Nor do their leaders appear to harbour democratic ambitions. They are scathing of their Maoist cousins in Nepal—to whom they have no dose link—for having quit the jungle and contested elections in 2008.

For the moment, moreover, despite reports of factionalism, the Maoise's influence is growing. By "taxing" companies drawn to east India's rich coal and metal deposits, they are also getting rich. "You will not find any businessman who has been attacked,' says Ajit Doval, a former head of India's Intelligence Bureau, "only poot tribals and policemen."



Western aims in Afghanistan

### Played for fools

Hamid Karzai's shenanigans make the going even harder for NATO

EVER since the aftermath of last year's disastrous preidential election in Afghanistan. Western diplomate have been talking tough about the need for thorough reform of the country srotten electoral system. Never again, the envoys said, would foreign governments pour cash into a machine that was controlled by the president, Hamid Karrau (above), oversaw fraud on an epic scale and handed a propaganda coup to the Taliban.

They promised that foreign support for the next parliamentary election, due in September, would depend on a cull of dodgy officials from the Independent Election Commission (IEC), the body that organised the voting, Most felt that Mr Karzai should lose the right to appoint its chairman and leadership board.

They also said that he would not be allowed to weaken the Electoral Complaints Commission (ECC), a watchdog that has been controlled by a majority of non-Afghan officials. Citing large-seale fraud, it ordered the disqualification of nearly Impose that had gone to Mr Karzai in the presidential election.

Mr Karzal's response to these foreign entreaties came this week with the publication of a presidential decree, issued while parliament was in recess. It leaves the IEC entirely unreformed. Moreover, it strips the United Nations of the power to appoint the majority of the EoC's independent members. That prerogative is now to be held exclusively by Mr Karzai.

Foreign activists were astonished by the president's chutzpah. A former member of the ECC said he was too angry to comment. However, those diplomats who had once claimed that reform of the commissions was a non-negotiable condition were muted in their criticism. They know that in their various tussles with Mr Karzai over the years they have nearly always ended up on the losing side.

One senior diplomat expressed the meek hope that the ECC might be both transparent and "Afghanised" because of a gentlemen's agreement struck between Mr Karai and Kai Eide, the United Nation's outgoing boss in Afghanistan, According to that bargain, two of the ECC's five commissioners are to be foreigners. Even so, they will not have the controlling yote, which proved crucial during last summer's fiasco. Without it, the foreign commissioners would not have been able to deprive Mr Karai of the first-round victory he carwed.

At the same time Mr Karzai has refused to go along with an American plan to use the parliamentary recess to pass an anti-corruption decree. Drafted by Ashraid Ghani, a former finance minister and presidential candidate, the order would have fulfilled a promise the Americans thought they had secured at an international conference on Afghanistan in London in Jaruary. It might even have given teeth to the existing anti-corruption body.

Kabul was not the only source of dispiriting news for NATO. The optimism that marked the first stages of Operation Mushtarak, a joint NATO and Afghan effort to stamp out the Taliban in a part of Helmand province called Marja, has begun to sag. The new mood had been fuelled by stories of the overwhelming force of American. British and Afghan forces making "steady progress" against insurgents, General Stanley McChrystal, the commander of the NATO-led international coalition, has been at pains to stress that their project is not so much aimed at killing insurgents as at building a legal government in the area and "protecting the population".

Clarification: Last week's Banyan column used the term "Maratha" in a sense that was interchangeable with "Marathi" or "Marathi-speaker". "Marathi", however, also refers to one of the dominant castes in the state of Maharashtra, and so is potentially misleading. Many Marathis, in this sense, are not Marathas.



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"Argues trenchantly that raat and branch reform will be needed to prevent [capitalism's] vitality fram being sapped by ill-designed regulation and political cronyism."

—NIALL FERUSON, Laurence A. Tisch Professar af Histary at Harvard University and author of *The Ascent of Maney*  That message was battered on February 2st, when NATO air strikes killed as many as 27 civilians, who were travelling in vehicles on the northern edge of Uruzgan province, one of Helmand's neighbours. The government in Kabul described the attack as "urjustifiable". General McChrystal went on national television to make an abject apology to the "great people of Afghanistan". Few Afghans were in a forgiving mood, however, having already heard so many foreign generals promise to stook lilling civilians.

It was in Uruzgan, too, that high-minded theories of counter-insurgency bumped against hard reality in another way this week. The Dutch government collapsed on February 20th, after finding itself unable to agree on an answer to NATO's request that it reconsider plans to withdraw its troops from Uruzgan in August. The role of those 2,000 Dutch soldiers could be filled by some of the 30,000strong surge of American troops ordered by President Barack Obama. But it would be a serious setback were one of the more active of America's NATO allies to guit Afghanistan. And the Dutch row could add to the popular pressure on other European governments to pull out their soldiers. So, too, could the outcry if another round of national voting descends into chaos.

Migrant workers in Thailand

### Inhospitality

BANGKOK

#### Life gets harder for Thailand's guest-workers

THEY sew bras, peel shrimps, build blocks of flats and haul fishing nets. In return, migrant workers in Thailand are paid poorly, if at all, and face exploitation and abuse at the hands of employers and the security forces. Up to 3m migrants, many undocumented and mostly from Myanmar, fall into this category. So scheme to start registering this workforce and bringit into the legal fold sounds like a step forward. Migrants have been ordered to apply to their home countries for special passports so that they can work legally in Thailand and, in theory, enjoy access to public services, such as health tare.

But the plan has run into practical and political difficulties, mostly among workers from Myanmar, who rightly fear their awful government and do not want to return home, even temporarily. Many are unaware of the registration drive. So the first applicants have come mostly from migrants from Laos and Cambodia, where the authorities are more willing to help.

The Thai government says 400,000 Myanmar nationals have so far joined the process. Under pressure, the Thai government has reportedly modified its original deadline of February 28th for filing papers. Now that is the deadline only for migrants to fill in a form agreeing to go through the "nationality verification" process. They have until the end of March to submit forms to their home government.

But Thailand has not lifted its threat to arrest and deport migrants who do not comply by the new deadline. The government apparently believes that unregistered foreigners are a security threat. This raises the spectre of mass expulsions on a scale not seen since the 1990s. Jorge Bustamante, a United Nations official in Geneva dealing with migrant rights, has said that this would breach Thailand's humanrights obligations, since workers might also be asylum-seekers.

aso be asysum-seesers. This argument is unlikely to sway a government that shows increasing contempt for refugees. In December it expelled more than the state of the state of

Kicking out millions of migrants who dirty low-paid jobs would be unpopular with That companies. Too few locals are willing to take their place. Garment factories in Thai-Myammar border towns such as Mae Sot would probably go bank-rupt if they had to offer decent wages and benefits. Fisheries and plantations also depend on imported labour. The government, however, believes that deported workers would soon be replaced by others eager to escape misery in Myammar.

Not all foreign workers are under the radar; over 1.3m migrants registered in 2009 for work permits under the old system. These are the workers whose nationality Thailand wants to verify first, before tackling the rest. But being a legal migrant in Thailand confers few benefits. Workers are still at the mercy of employers who can cheat them of their wages and dismiss them summarily Complaining can be futile or worse. Workers face extortion, rape and even murder by the very officials supposed to be protecting them, according to Human Rights Watch (HRW), a watchdog that this week released a report on the abuses suffered by migrants. It noted that officials treat them like "walking ATMS".

There is little reason to believe that holding a special passport would protect migrants from rapacious cops and stingy employers, says HRW's Phil Robertson. Migrants will still be unable to travel freely or organise into unions. In some provinces it is illegal for them to use mobile phones. Labour-inspectors pay little heed.

Employers have the upper hand and can keep down labour costs, but at a price to Thailand's competitiveness. Surveys of Thai workers show a steady decline in their productivity, says Pracha Vasuprasat, an expert on migration at the International Labour Organisation. An abundance of poorly paid migrants means less incentive to upgrade to a more skilled workforce. Thailand's is not the only Asian economy hooked on cheap labour. Neighbouring Malaysia also depends on millions of guest-workers. So much so that its home minister. Hishammuddin Hussein, has suggested that, to lessen the dependence, political refugees be allowed to work.

## Democracy in action

BEILING
Making sure that China's supreme
legislative body is toothless

NAOLIEA a primary schoolteacher who in 1998 became one of the first legislators in China to be elected without the backing of the Communist Party, is wearly resigned to frequent summons by the police As China's rubber-stamp parliament, the National People's Congress (NPC), prepares for its annual session from March 5th, jittery authorities are stepping up surveillance of Mr Yao and others they fear might use the occasion to air grievances about the parry's grip.

The cautious experiment with grassroots democracy that saw Mr Yao elected to his town's legislature in the province of Hubei was all too brief. By the next poll in 2003, Mr Yao-by then lionised as a daring independent political voice even by some official newspapers-had no chance of winning again. A handful of other independent candidates did manage to gain seats that year in county and township "people's congresses". But in the following elections in 2006 and 2007, the authorities did all they could to stop them winning, from gerrymandering and vote-rigging to intimidation. Mr Yao says he was detained five times last year to keep him quiet during politically sensitive occasions, including the NPC session last March.

As usual, China is preparing for the upcoming parliamentary meeting with a propaganda blitz about the session's importance as a conduit for public opinion. Online opinion polls seek votes on the topics of most interest at the meeting. Corruption, income disparities and soaring house prices rate highly. But internal directives suggest that in recent years the party has been keeping tight control on the legislature in an effort to minimise embarrassment to the party leadership.

That the party should worry at all may seem odd. Communist Party members account for fewer than 6% of China's people, but more than 70% of the 2,987 delegates appointed in 2008 for a five-year term to the NPC. In lower-level congresses, estimates one party researcher, the ratio is normally 60-70%, with more than half of the seats usually taken by "leading officials". Nearly 9% of national legislators are members of the armed forces. A similar share are senior party and government officials and senior academics. Almost all delegates at every level, though nominally elected (either by lower-level congresses or by the public in the case of the lowest tiers), are in fact selected by the party. Voting is almost always a formality.

But the party does not leave it at that, it gives is hand-picked representatives a bit of leeway to mean about house prices, or of leeway to mean about house prices, or over corruption. But it goes to extra lengths to make sure that important laws or leadership appointments are passed with a minimum of dissent. The national legislature is made up of 3 delegations. Two represent Hong Kong and Macau, where the party weeps its head down. But the rest have their own party cells whose job it is to ensure that members to the line.

In 2008 leaders met partry officials in the NFC to stress the importance of securparty's choices for top national posts. This included the re-election of President Hu Jinto and the prime minister, Wen Jiabao. Apparently to prevent critical comments from leaking to the press the internal bulletins circulated among the delegations to keep them informed of each others' discussions were banned from mentioning what delegates said about official appoint-

ments. Such comments were to be relayed directly to the party leadership. Until the voting, even the names of the officials up for election were to be kept secret. Since 2007 each delegation has had to name a secrey officer to enforce such rules. That year foreign journalists were barred from any meeting taking place next to a room being visited by a senior leader. The party did not want leaders buttonhold.

ou not wantieaders outlomholed. Displays of discontent outside the Great Hall of the People where the NPC convenes are another cause for concern. The NPC received 227,000 petitions by agrieved citizens in 2006, up from 100,000 in 2004. This prompted officials to order more stremuous efforts to keep petitioners from flocking to Beijing, and certainly well away from the meetings. Activities such as Mr No are targets. He says he was detained by police for more than an hour this month when he tried to visit the American embasy in Beijing. His travails as a would-be legislator, the authorities clearly believe, are an internal affair, nor for foreign ears.

#### Animal welfare in China

#### Off the menu

BEIJING

The right to eat cats and dogs is under threat

ATTHE National People's Congress (see main story), the Communist Party decides what laws to draft and when they get passed. But public pressure is beginning to count, too. An attempt to persuade the Congress to ban the eating of dog, and cat-meat has captivated the Chinese press and caused an uproar.

Chinese press and caused an uproar.
A proposed animal-rights law, circulated in draft last September by Chinese
activists and legal experts, would be the
first of its kind in a country where animal
welfare rarely seems a priority. Pigs destimed for slaughter are often seen
crammed excruciatingly tightly in cages
on the backs of lorries. In safari parks
visitors happilly pay to dangle live chickens into lions' dens, or even to have a live
calf dragged by its legs behind a jeep
past ravenous tigers. But a fastgrowin priddle class. despite

growing middle class, despite enjoying gory outings, is also fond of pet dogs and cats.

This creates conflict with ancient eating habits. Dogs are a popular dish in many parts of China, not least among ethnic Koreans in the north-east. Dog restaurants are also common in Beijing, Many believe that eating dog helps keep the human body warm in winter. Cats are popular in southern China. The sweet

tasting meat has been served to your correspondent, diced into small cubes reassembled in feline form with furstripped paws sticking in the air. The wretchedness of its foreshortened life was left to the imagination.

Dogs were once banned in many urban areas, but in recent years the government has caved in to soaring demand. For each household Beijing still has a one-dog policy and decrees that they must not be taller than 35cm (14 inches). They are nonetheless ubiquitous.

"The proposed law would make the or illegal consumption or sale" of dog- or cat-meat punishable by a fine of up to 5,000 yuan (\$730) or imprisonment for up to 15 days. But opponents are still many and vociferous both in the aress

ny and vociferous both in the press and online. Dog-eating, they argue, is a time-honoured tradition and China is not ye

ready for Western-style prissiness about consuming such animals. Perhaps, they suggest hopefully, the word "illegal" could be taken to mean that there might still be a legal way of killing cats and dogs for the table. The Congress admitted two years ago that better laws were needed to prevent cruelty to animals. But this one is not veton the agenda.

## Banyan | The mother of all dictatorships

To understand North Korea, look not to Confucius or the Soviet Union, but to fascist 1930s Japan



THE face that North Korea presents to the world is widely held to be turneal. Kim Jong II once told Madeleine Albright, Bill Clinton's secretary of state, that the bombast in honour of himself and his late, great father, Kim II Sung, was so much nonsense. Bruce Cumings, an historian, wonders what Mr Kim can be thinking, "standing there in his pear-shaped polyester pantsuit, pointly-tode devator shoes, oversize sunglasses of malevolent tint, an arrogant curl to his feminine lip...and a perpetual badhair day? Heis thinking, getme out of here."

The notion that Nortik Korea does not always believe what its doing colours even diplomacy, which may soon start up again after months of tantrums on the part of the North. The aim is to get North Korea to give up its nuclear programmers as a prelude to normalising relations on the Korean peninsula. Many policymakers in America believe—against the evidence—that Mr Kim can be persuaded to do a deal. Some think that behind his antagonism lurks a desire for accommodation—and even an alliance.

A new book\*, by Brian Myers at South Korea's Dongseo University, shows just how wishful such thinking is. Dismissing what the North Korean regime tells the outside world, the author looks instead at North Korea's domestic propaganda, the Kim family cult and the country's official myths. From these he pieces together what North Koreans are supposed to believe. He concludes that Mr Kim's power is based not just on surveillance and repression. Nor can its survival be ascribed simply to the effective brainwashing of the population. Rather, the personality cult proceeds from powerful mythas bout race and history targe and the propertion when the control is the control of the population.

Ideas of racial purity lie at the heart of North Koreans' self-image. Since the regime's founding, they have been taught to think that they are a unique race, incapable of evil. Virtue, in turn, has made Koreans as vulnerable as children. Korea's history, the regime insists, is the history of a child-race abused by adults-Chinese, Japanese and American. Pure, spontaneous and naive, Koreans need a caring, protective leader. The upshot is the Kims' peculiar cult, of state-sponsored infantilism.

You see no chin-thrusting depictions of father or son on the monumental streets of Pyongyang. In art as in life, both Kims are effeminate and podgy. Warnings against fleeing to China are conveyed as directed at a squirrel who wanders too far. In paintings,

Kim Il Sung tucks children into bed. The nation lies at the "breast" of Kim Jong Il and his party. As commander-in-chief of the armed forces, Mr Kim is even called "Mother General".

There is a precedent for this weirdly hermaphroditic parent figure: Emperor Hirohito in fascist, imperial Japan. Then Hirohito was depicted as the heart of a pure nation, which was ready to die for him because emperor and people were one. When Japan ruled Korea from 190-545, racist ideologues said that the two countries shared the same bloodline. They were both members of the winning racial team.

After the second world war, Mr Myers recounts, Kim IJ Sung kicked the Japanse off the team and pinched all their ideas. For mer propagandists for the Japanses were set to work manufacturing North Korean myths. Mount Packtu was endowed with Fujilike sacred status. Kim was painted atop a white charger, like one Hirohito used to ride. And, like Hirohito until Japan's surrender, KIm Jong II, like his father before him, was not heard speaking by his people in public broadcasts. To an extent, such fascism has worked. Many North Koreans see the mass robotic symmastics of the Arirang games (which bore Kim Jong II rigid) not as a grim Stallinist display but as a celebration of pure blood and homogeneity.

The counterpart to a childish state at home is a hostile world outside. For this Japan and, especially, imperialist America are essential. Mr Myers conveys well the intensity of race-hatred directed at America. Americans are chillingly scorned as miscegenated "bastards", in contrast to pure-blooded Koreans. Again, myths are recycled from militarist Japan. Christian missionaries are said to inject innocent Korean children with fatal bacilli. The author valuably describes how propagandists depict diplomatic covertures by South Korea and America as quaking capitulations. Aid becomes tribute, so aid-bags stamped with the stars and stripes are tolerated when turned into use as holdalis. All this has a bearing as the diplomatic merry, ex-ound cranks up again.

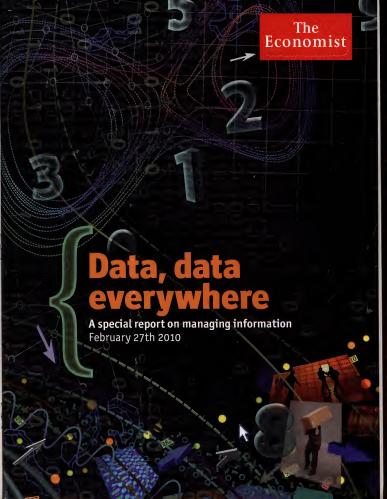
#### End games

Mr Myers wonders why Mr Kim would ever give up confrontation with America when his legitimacy rests upon it. After a deadly famine in the mid-1990s and, in recent weeks, a bungled currency confiscation, he has no interest in claiming to stand for material prosperity. Anyway, South Korea wins hat competition hands down. Rather, nuclear crises since 1994—and the detonation of a first nuclear device in 2006—allow him to present himself as the nation's defender against aggression. In 2009 the country's "military-fist" policy, making the armed forces the nation's highest priority, was even enshrined in the constitution. Eascism is Mr Kim's last refuge. Giving up nuclear weapons would spell the end. So he negotiates with America not to end tensions, but to manage them; nether allout war nor all-out peace.

What would bring the regime down, then? Thanks to the advancing creep of knowledge, North Koreans know that the South is richer by far. But the propaganda state has found a way around that. South Koreans may be rich, but they are desperately unhappy because they are under the thumb of the despised Yankes. Harder to deal with, by far, would be to find out that South Koreans are content in their republic.

\*The Cleanest Race: How North Koreans See Themselves—And Why It Matters. By B.R. Myers. Melville House; 200 pages; \$24.95

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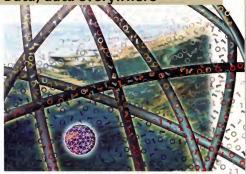
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An audio interview with the author is at Economist.com/audiovideo Data, data everywhere



Information has gone from scarce to superabundant. That brings huge new benefits, says Kenneth Cukier—but also big headaches

WHEN the Sloan Digital Sky Survey started work in 2000, it to lescope in New Mexico collected more data in tiffsire weeks than had been amassed in the entire history of astronomy Now; a decade alact, its archive contains as whopping 400 alact, its archive contains as whopping 400 terabytes of information. A successor, the Lange Synoptic Survey Telescope, due to come on stream in Chile in 2006, will actually admitted that undartive of data every five days.

Such astronomical amounts of information can be found closer to Earth too. Wal-Mart, a retail glant, handles more than un customer transactions every hour, feeding databases estimated at more than 2.5 petabytes—the equivalent of 1st times the books in America's Library of Congress (see box later in this article for an explaint on 6 how data are quantified). Racebook, as ocial-networking website, is home to 4,0 billion photos. And decoding the human genome involves analysing 3 billion base pairs—which took ten years the first time it was done, in 2003, but can now be achieved in now week.

All these examples tell the same story: that the world contains an unimaginably vast amount of digital information which is getting ever vaster ever more rapidly. This makes it possible to do many things that previously could not be done: spot business trends, prevent diseases, combat crime and so on. Managed well, the data can be used to unlock new sources of economic value, provide fresh insights into science and hold governments to account.

But they are also creating a host of new problems. Despite the abundance of tools to capture, process and share all this information-sensors, computers, mobile phones and the like-ti already exceeds the vauilable storage space (see chart 1, next page). Moreover, ensuring data security and protecting privacy is becoming harder as the information multiplies and is shared ever more widely around the world.

Alex Szalay, an astrophysicist at Johns Hopkins University, notes that the proliferation of data is making them increasingly inaccessible. "How to make sense of all these data? People should be worried about how we train the next generation, not just of scientists, but people in government and industry," he says.

"We are at a different period because of so much information," says James Cortada of IBM, who has written a couple of dozen books on the history of information in society, Joe Hellerstein, a computer scienitist at the University of California in Berkeley, calls it "the industrial revolution of data". The effect is being felt everywhere, from business to science, from government to the arts. Scientists and computer engineers have coined a new term for the phenomenon." bilg data".

Epistemologically speaking, information is made up of a collection of data and >>> • knowledge is made up of different strands of information. But this special report uses "data" and "information" interchangeably because, as it will argue, the two are increasingly difficult to tell apart. Given enough raw data, today's algorithms and powerful computers can reveal new insights that would previously have remained hidden.

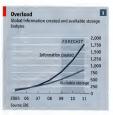
The business of information management-helping organisations to make sense of their proliferating data—is growing by leaps and bounds. In recent years and Oracle, IBM, Microsoft and sAr between them have spent more than \$15, billion on buying software firms specialising in data is is estimated to be worth more than \$100 ox \$1.00 o

Chief information officers (C105) have become somewhat more prominent in the executive suite, and a new kind of professional has emerged, the data scientist, who combines the skills of software programmer, statistician and storyteller/artist to extact the nuggesto f gold hidden under mountains of data. Hal Varian, Google's chief economist, predicts that the job of statistician will become the "sexiest" around. Data, he explains, are widely available; what is scarce is the ability to extact wisdom from them.

#### More of everything

There are many reasons for the information explosion. The most obvious one is technology. As the capabilities of digital devices soar and prices plummet, sensors and gadgets are digitising lots of information that was previously unavailable. And many more people have access to far more powerful tools. For example, there are 4,6 billion mobile-phone subscriptions worldwide (though many people have more than one, so the world's 6,8 billion people are not quite as well supplied as these figures suggest), and 1 billion-2 billion people use the internet.

Moreover, there are now many more people who interact with information. Between 1990 and 2005 more than 1 billion people wordstwide entered the middle class. As they get richer they become more literate, which fuels information growth, notes Mr Cortada. The results are showing up in politics, economics and the law as well. "Revolutions in science have often been preceded by revolutions in measurement," says Sinan Aral, a business professor at New York University, ust as the mi-



croscope transformed biology by exposing germs, and the electron microscope changed physics, all these data are turning the social sciences upside down, he explains. Researchers are now able to understand human behaviour at the population level rather than the individual level.

The amount of digital information increases tenfold every five years. Moore's law, which the computer industry now takes for granted, says that the processing power and storage capacity of computer chips double or their prices halve roughly very 38 months. The software programs are getting better too. Edward Felten, a computer scientist at Pfincteon University, reckons that the improvements in the algorithms driving computer applications have played as important a part as Moore's law for deedees.

A vast amount of that information is shared. By 2013 the amount of traffic flowing over the internet annually will reach 667 exabytes, according to Cisco, a maker of communications gear. And the quantity of data continues to grow faster than the ability of the network to carry it all.

People have long groused that they were swamped by information. Back in 1917 the manager of a Connecticut manufacturing firm complained about the effects of the telephone: "Time is lost, continuis on results and money is spent." Yet what is happening now goes way beyond incremental growth. The quantitative change has begun to make a qualitative difference.

This shift from information scarcity to surfeit has broad effects. "What we are sening is the ability to have economies form around the data—and that to me is the big change at a societal and even macroeconomic level," says Craig Mundie, head of research and strategy at Microsoft. Data are becoming the new raw material of business: an economic input almost on a par ness: an economic input almost on a par

with capital and labour. "Every day I wake up and ask, 'how can I flow data better, manage data better, analyse data better?" says Rollin Ford, the CIO of Wal-Mart.

Sophisticated quantitative analysis is being applied to many aspects of life, not just missile trajectories or financial hedging strategies, as in the past. For example, Farecast, a part of Microsoft's search engine Bing, can advise customers whether to buy an airline ticket now or wait for the price to come down by examining 225 billion flight and price records. The same idea is being extended to hotel rooms, cars and similar items. Personal-finance websites and banks are aggregating their customer data to show up macroeconomic trends, which may develop into ancillary businesses in their own right. Number-crunchers have even uncovered match-fixing in Japanese sumo wrestling.

#### Dross into gold

"Data exhaust"—the trail of clicks that internet users leave behind from which value can be extracted—is becoming a maintasy of the internet economy. One example is Google's search engine, which is partly guided by the number of clicks on an item to help determine its relevance to a search query. If the eighth listing for a search term is the one most people go to, the algorithm puts it higher up.

As the world is becoming increasingly digital, aggregating and analysing data is likely to bring huge benefits in other fields as well. For example, Mr Mundie of Microsoft and Eric Schmidt, the boss of Google, sit on a presidential task force to reform American health care, "Early on in this process Eric and I both said: 'Look, if you really want to transform health care, you basically build a sort of health-care economy around the data that relate to people'," Mr Mundie explains, "You would not just think of data as the 'exhaust' of providing health services, but rather they become a central asset in trying to figure out how you would improve every aspect of health care. It's a bit of an inversion.'

To be sure, digital records should make life easier for doctors, bring down costs for providers and patients and improve the quality of care. But in aggregate the data can also be mined to spot unwanted drug interactions, identify the most effective treatments and predict the onset of disease before symptoms emerge. Computers already attempt to do these things, but need to be explicitly programmed for them. In a world of big data the correlations surface almost by themselves. Sometimes those data reveal more than was intended. For example, the city of Oakland, California, releases information on where and when arrests were made, which is put out on a private website, Oakland Crimesporting, At one point a few clicks revealed that police swept the whole of a busy street for prostitution every evening except on Wednesdays, a tactic they probably meant to keep to themselves.

But big data can have far more serious consequences than that. During the recent financial crisis it became clear that banks and rating agencies had been relying on models which, although they required a vast amount of information to be fed in, failed to reflect financial risk in the real world. This was the first crisis to be sparked by big data—and there will be more.

The way that information is managed touches all areas of life. At the turn of the 20th century new flows of information through channels such as the telegraph and telephone supported mass production. Today the availability of abundant date enables companies to cater to small date enables companies to cater to small

niche markets anywhere in the world. Economic production used to be based in the factory, where managers pored over every machine and process to make it more efficient. Now statisticians mine the information outbut of the business for new ideas.

"The data-centred economy is just nascent," admits Mr Mundie of Microsoft. "You can see the outlines of it, but the technical, infrastructural and even businessmodel implications are not well understood right now." This special report will point to where it is beginning to surface.

## All too much

QUANTIFYING the amount of information that exists in the world is hard. What is clear is that there is an awful lot of it, and it is growing at a terrific rate (a compound annual 6-30) that is speeding up all the time. The flood of data from sensors, computers, research labs, cameras, phones and the like supparent has computed to the capacity of storage technologies in 2001. Experiments at the Lange Hadron is allowed to the capacity of storage technologies in 2001. Experiments after the capacity of storage technologies in 2001. Experiments and the Lange Hadron is laboratory year (Seneva, generate 40 terrabytes every second-orders of magnitude more than can be stored or analysed. So scientists collect what they can and let the rest dissonate into the ether.

According to a 2008 study by International Data Cory (IDC), a market-research firm, around 1,200 exabytes of digital data will be generated this year. Other studies measure slightly different things. Hal Varian and the late Peter Jyman of the University of California in Berkeley, who pioneered the idea of counting the world's bits, came up with a far smaller amount, around 5 exabytes in 2002, because they counted only the stock of original content.

What about the information that is actually consumed? Researchers at the University of California in San Diego (uccsa) examined the flow of data to American households. They found that in 2008 such households were bombarded with 3.6 see-tabytes of information (or 3.4 gigabytes per person per day). The biggest data hogs were video games and television. In terms of bytes, written words are insignificant, amounting to less than 0.3% of the total. However, the amount of reading recoble

Monstrous amounts of data

do, previously in decline because of tele-vision, has almost tripled since 1980, or 1980, thanks to all that text on the internet. In the past information consumption was represented by phone. Today half of all bytes are received we considered that the constitution of the constitution

#### March of the machines

Significantly, "information created by machines and used by other machines will probably grow faster than anything else," explains Roger Bohn of the UCSD, one of the authors of the study on American households. "This is primarily 'database to database' information—people are only tangentially involved in most of it."

Only 5% of the information that is created is "structured", meaning it comes in a standard format of words or numbers that can be read by computers. The rest are things like photos and phone calls which are less easily retrievable and usable. But this is changing as content on the web is increasingly "tagged", and facila-recognition and voice-recognition software can identify people and words in digital files.

"It is a very sad thing that nowadays there is so little useless information," quipped Oscar Wilde in 1894. He did not know the half of it.

#### Data inflation

July Miller of the Control of the Co			
Unit Size		What it means	
Bit (b)	1 or 0	Short for "binary digit", after the binary code (1 or 0) computers use to store and process data	
Byte (B)	8 bits	Enough information to create an English letter or number in computer code. It is the basic unit of computing	
Kilobyte (KB)	1,000, or 2 <sup>10</sup> , bytes	From "thousand" in Greek. One page of typed text is 2KB	
Megabyte (MB)	1,000KB; 2 <sup>20</sup> bytes	From "large" in Greek. The complete works of Shakespeare total 5MB. A typical pop song is about 4MB	
Gigabyte (GB)	1,000MB; 2 <sup>30</sup> bytes	From "glant" in Greek. A two-hour film can be compressed into 1-2GB	
Terabyte (TB)	1,000GB; 2 <sup>60</sup> bytes	From "monster" in Greek. All the catalogued books in America's Library of Congress total 15TB	
Petabyte (PB)	1,000TB; 2 <sup>50</sup> bytes	All letters delivered by America's postal service this year will amount to around 5PB. Google processes around 1PB every hour	
Exabyte (EB)	1,000PB; 2 <sup>60</sup> bytes	Equivalent to 10 billion copies of The Economist	
Zettabyte (ZB)	1,000EB; 2 <sup>70</sup> bytes	The total amount of information in existence this year is forecast to be around 1.2ZB	
Yottabyte (YB)	1,000ZB; 2 <sup>60</sup> bytes	Currently too big to imagine	

The prefixes are set by an intergovernmental group, the International Bureau of Weights and Measu Source: The Economist Yotta and Zetta were added in 1991; terms for larger amounts have yet to be establish

## A different game

Information is transforming traditional businesses

IN 1879 James Ritty, a saloon-keeper in Dayton, Ohio, received a patent for a wooden contraption that he dubbed the incorruptible eashier? With a set of buttons and a loud bell, the device, sold by National Cash Register (NCR), was fittle more than a simple adding machine. Yet as an early form of managing information flows in American business the cash register had a buyle impact. Into only reduced pillerage by alerting the shopkeeper when the till was opened: by recording every transaction, it also provided an instant overview of what was happening in the business.

Sales data remain one of a company's most important assets. In 2004 Wal-Mart peered into its mammoth databases and noticed that before a hurricane struck, there was a run on flashlights and batterless, as might be expected; but also on 794 Tarts, a sugary American breakfast snack. On reflection it is clear that the snack would be a handy thing to eat in a black-out, but the retailer would not have thought to stok up on it before a storm. The company whose system crunched Wal-Mart's numbers was none other than NCR and its data-warehousing unit, Teradata, now an independent firm.

A few years ago such technologies, called "business intelligence", were available only to the world's biggest companies. But as the price of computing and storage has fallen and the software systems have got better and cheaper, the technology has moved into the mainstream. Companies are collecting more data than ever before. In the past they were kept in different systems that were unable to talk to each other, such as finance, human resources or customer management. Now the systems are being linked, and companies are using data-mining techniques to get a complete picture of their operations-"a single version of the truth", as the industry likes to call it. That allows firms to operate more efficiently, pick out trends and improve their forecasting.

Consider Cablecom, a Swiss telecoms operator. It has reduced customer defections from one-fifth of subscribers a year-to under 5% by crunching its numbers. Its software spotted that although customer defections peaked in the 19th month, the



decision to leave was made much earlier, around the ninth month (as indicated by things like the number of calls to customer support services). So Cablecom offered certain customers special deals seven months into their subscription and reaped the rewards.

#### Agony and torture

Such data mining has a dubious reputation. "Torture the data long enough and they will confess to anything," statisticians of quip. But it has become far more effective as more companies have started to use the technology. Best Buy, a retailer, found that 7% of its customers accounted for 43% of its asles, so it reorganised its stores to concentrate on those customers' needs. Airline yield management improved because analytical techniques uncovered the best predictor that a passenger would actually catch a flight he had booked: that he had ordered a vegetardam meal.

The IT industry is piling into business intelligence, seeing it as a natural successor of services such as accountancy and computing in the first and second half of the 20th century respectively. Accenture, PricewaterhouseCoopers, IBM and SAP are investing heavily in their consulting practices. Technology vendors such as Oracle. Informatica, TIBCO, SAS and EMC have benefited. IBM believes business intelligence will be a pillar of its growth as sensors are used to manage things from a city's traffic flow to a patient's blood flow. It has invested \$12 billion in the past four years and is opening six analytics centres with 4,000 employees worldwide.

Analytics—performing statistical operations for forecasting or uncovering correlations such as between Pop-Tarts and hurricanes—can have a big pay-off. In Britain the Koyal Shakespeare Company (scc) sifted through seven years of sales data for a marketing campaign that increased regular vistions by 70%. By examining more than 2m transaction records, the 8sC discovered a oli more about its best customers not just income, but things like occupation and family status, which allowed it to arget its marketing more precisely. That was of crucal importance, says the xeSC Mary Butlin, because it substantially boosted membership as well as fund-raising revenue.

Yet making the most of data is not easy. The first step is on improve the accuracy of the information. Nestlé, for example, sells more than 100,000 products in 200 coumtres, using \$50,000 suppliers, but it was not using its huge buying power effectively because its databases were a mess. On examination, it found that of its 9m records of vendors, customers and materials around half were obsolete or duplicated, and of the remainder about one-third were inaccurate or incomplete. The name of a vendor might be abbreviated in one record but spelled out in another, leading to double-counties.

#### Plainer vanilla

Over the past ten years Nestlé has been overhauling its rr system, using s.Ar software, and improving the quality of its data. This enabled the firm to become more dicent, says Chris Johnson, who led the initiative. For just one ingredient, vanilla, its American operation was able to reduce the number of specifications and use fewer suppliers, saving \$50m a year. Overall, such operational improvements save more than \$50lijon annually.

Nestlé is not alone in having problems >>

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with its database. Most CIOs admit that their data are of poor quality, in a study by Isak half the managers quizzed did not trust the information on which they had to base decisions. Many say that the technology meant to make sense of it often just produces more data. Instead of finding a needle in the haystack, they are making more hay.

Still, as analytical techniques become more widespread, business decisions will increasingly be made, or at least corroborated, on the basis of computer algorithms rather than individual hunches. This creates a need for

managers who are comfortable with data, but statistics courses in business schools are not popular.

Many new business insights come from "dead data": stored information about past transactions that are examined to reveal hidden correlations. But now companies are increasingly moving to analysing realtime information flows.

Wal-Martis a good example. The retailer operates Raoo stores worldwide, has more than 2m employees and handles over 200m customer transactions each week. Its revenue last year, around \$4,00 billion, is more than the cop of many entire countries. The sheer scale of the data is a challenge, admits Sollin Ford, the cro at Wal-Mart's headquarters in Bentonville, Arkansas. "We kep a healthy paranoia."

#### Not a sparrow falls

Wal-Mart's inventory-management system, called Retal Link, enables suppliers to see the exact number of their products on every shelf of every store at that precise moment. The system shows the rate of assles by the hou, by the day, over the past sales by the hou, by the day, over the past year and more. Begun in the 1990s, Retail Link gives suppliers a complete overview of when and how their products are selling, and with what other products in the shopping cart. This lets suppliers manage their stocks better.

The technology enabled Wal-Mart to change the business model of retailing, in some cases it leaves stock management in the hands of its suppliers and does not take ownership of the products until the moment they are sold. This allows it to shed inventory risk and reduce its costs. In essence, the shelves in its shops are a highly efficiently managed depot.

Another company that capitalises on realtime information flows is Li & Fung, one of the world's biggest supplychain operators. Founded in Guangzhou in southern China a century ago, it does not own any factories or equipment but orchestrates a network of 12,000 suppliers in 40 countries, sourcing goods for brands ranging from Kate Spade to Walt Disney. Its turnover in 2008 was \$14 billion.

Li & Fung used to deal with its clients mostly by phone and fax, with e-mail counting as high technology. But thanks to a new web-services platform, its processes have speaded up. Or.

ogy-out mains of a netw webset vites parform, its processes have speeded up. Orders flow through a web portal and bids can be solicited from pre-qualified suppliers. Agents now audit factories in real time with hand-held computers. Clients are able to monitor the details of every stage of an order, from the initial production run to shinning.

One of the most important technologies has turned out to be vide conferencing. It allows buyers and manufacturers to examine the colour of a material or the stitching on a garment. "Before, we weren't able to send a 500M B image—we'd post a DVD. Now we can steam it to show vendors in our offices. With real-time images we can make changes quicker," asys Manuel Fernandez, Li & Fung's chief technology officer. Data flowing through its network soared from 100 gigabytes a day only 18 months ago to streabyte.

The information system also allows Li S Eugus look across its operations to identify trends. In southern China, for instance, a shortage of workers and new legislation raised labour costs, so production moved north. "We saw that before it actually happened," says MF Fernandez. The company also got advance warning of the economic crisis, and later the recovery, from retailers' orders before these trends became apparaent. Investment analysts use country information provided by Li & Fung to gain insights into macroeconomic patterns.

Now that they are able to process information flows in real time, organisations are collecting more data than ever. One use for such information is to forecast when machines will break down. This hardly ever happens out of the blue: there are usually warning signs such as noise, vibration or heat. Capturing such data enables firms to act before a breakdown.

Similarly, the use of "predictive analytics" on the basis of large data sets may transform health care. Dr Carolyn McGreor of the University of Ontario, working with 18M, conducts research to spot potentially fatal infections in premature bables. The system monitors suble changes in seven streams of real-time data, such as respiration, heart rate and blood pressure. The electrocardiogram alone generates, 1000 readings per second.

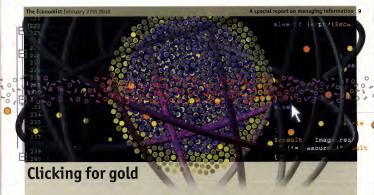
This kind of information is turned out by all medical equipment, but it used to be recorded on paper and examined perhaps once an hour. By feeding the data into a computer, Dr McGregor has been able to detect the onset of an infection before obvious symptoms emerge. "You can't see it with the naked eye, but a computer can," she says.

#### Open sesame

Two technology trends are helping to fuel these new uses of data: cloud computing and open-source software. Cloud computing-in which the internet is used as a platform to collect, store and process data-allows businesses to lease computing power as and when they need it, rather than having to buy expensive equipment, Amazon, Google and Microsoft are the most prominent firms to make their massive computing infrastructure available to clients. As more corporate functions, such as human resources or sales, are managed over a network, companies can see patterns across the whole of the business and share their information more easily.

A free programming language called x lets companies examine and present big data sets, and free software called Hadoon own allows ordinary res to analyse huge quantities of data that previously required a supercomputer. It does this by parcelling out the tasks to numerous computers at once. This saves time and money, For example, the New York Times a few years ago used cloud computing and Hadoop to convert over 400,000 scanned images from its cartivers, from 1851 to 1922. By harnessing the power of hundreds of computers, it was able to do the job in 36 hours.

Visa, a credit-card company in a recent trial with Hadoop crunched two years of test records, or 73 billion transactions, amounting to 36 terabytes of data. The processing time fell from one month with traditional methods to a mere 13 minutes. It is a striking successor of Ritty's incorruptible cashier for a data-driven age.



How internet companies profit from data on the web

PST1Amazon.com does not want you to know what it knows about you. It not only tracks the books you purchase, but also keeps a record of the ones you brows but do not buy to help it recommend other books to you. Information from its e-book, the Kindle, is probably even richer how long a user spends reading each page, whether he takes notes and so on. But Amazon refuses to disclose what data it collects or how it uses them.

It is not alone. Across the internet economy, companies are compiling masses of data on people, their activities, their likes and distilkes, their relationships with others and even where they are at any particular moment—and keeping mum. For example, Raebook, a social-networking site, tracks the activities of its 400m users, half of whom spend an average of almost an hour on the site every day, but does not talk about what if finds. Google reveals a little but holds back a lot. Even eBay, the online auctioneer, keeps quiet.

"They are uncomfortable bringing so much attention to this because it is at the heart of their competitive advantage," says, a technology insider and publisher. "Data are the coin of the realm. They have a big lead over other companies that do not 'get' this." As the communications director of one of the web's biggest that do not 'get this." We're not in a position to that allow a minimum of the position of the

The reticence partly reflects fears about consumer unease and unwelcome atten-

tion from regulators. But this is short-sighted, for two reasons. First, politicians and the public are already anxious. The chairman of America's Federal Trade Commission. Jon Leibowitz, has publicly grumbled that the industry has not been sufficiently forthcoming. Second, if users knew how the data were used, they would probably be more impressed than alarmed.

Where traditional businesses generally collect information about customers from their purchases or from surveys, internet companies have the luxury of being able to gather data from everything that happens on their sites. The biggest websites have long recognised that information it easily is the significant of the control of the cont

Some of the techniques have become widespread. Before deploying a new feature, big sites run controlled experiments to see what works best. Arnazon and Neils, as tiet had fores films for hire, use a statistical technique called collaborative films, as the technique called collaborative stering to make recommendations to users based on what other users like. The technique they came up with has produced millions of dollars of additional sales. Nearly two-thirds of the films elections by Nefflix's customer come from the referrals made by computer.

EBay, which a first sight looks like nothing more than a neutral platform for commercial exchanges, makes myriad adjustments based on information culled from listing activity, bidding behaviour, pricing trends, search terms and the length of time users look at a page. Every product category is treated as a micro-economy that is actively managed. Lots of searches but few sales for an expensive item may signal unmet demand, so eBay will find a partner to offer sellers insurance to increase listings.

The company that gets the most out of is data is Google. Creating new economic value from unthinkably large amounts of information is its lifeblood. That helps explain why, on inspection, the market capitalisation of the 11-year-old firm, of around 370 billion, is not so outlandish. Google exploits information that is a by-product user interactions, or data exhaust, which is automatically recycled to improve the service or create are neititely new product.

#### Vote with your mouse

Until 1998, when Larry Page, one of Gogle's founders, devised the PageRank algorithm for search, search engines counted the number of times that a word appeared on a web page to determine its relevance—a system vide open to manipulation. Google's innovation was to count the number of inbound links from other was pages. Such links act as' votes' on what internet users at large believe to be good content. More links suggest a webpage is more useful, just as more citations of a book suggests it is better.

But although Google's system was an improvement, it too was open to abuse from "link spam", created only to dupe the system. The firm's engineers realised that the solution was staring them in the face: the search results on which users actually clicked and stayed. A Google search might yield zm pages of results in a quarter of a second, but users often want just one page, and by choosing it they "tell" Google what "by

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they are looking for. So the algorithm was rejigged to feed that information back into the service automatically.

From then on Google realised it was in the data mining business. To put the model in simple economic terms, its search results give away, say, \$1 in value, and in return (thanks to the user's clicks) if gets1 cent back. When the next user visits, he gets \$2.0.0 f value, and so on. As one employee puts it: "We like learning from large, 'noisy' data sets."

Making improvements on the back of a big data set is not a Google monopoly, nor is the technique new. One of the most striking examples dates from the mid-shoos, when Matthew Fontaine Maury of the American navy had the idea of aggregating nautical logs from ships crossing the Parific to find the routes that offered the best winds and currents. He created an early variant of a "viral" social network, rewarding captains who submitted their logbooks with a copy of his maps. But the process was solw and laborious.

Wizard spelling

Google applies this principle of recursively learning from the data to many of its services, including the humble spell-check, for which it used a pioneering method that produced perhaps the world's best spell-checker in almost every language. Microsoft says it spent several million dollars over 20 years to develop a robust spell-checker for its word-processing program. But Google got its raw material free: its program is based on all the misspellings that users type into a search window and then "correct" by clicking on the right result. With almost 3 billion queries a day, those results soon mount up. Other search engines in the 1990s had the chance to do the same, but did not pursue it. Around 2000 Yahoo! saw the potential. but nothing came of the idea. It was Google that recognised the gold dust in the detritus of its interactions with its users and took the trouble to collect it up.

Two newer Google services take the same approach translation and voice recognition. Both have been big stumbling blocks for computer scientists working on artificial intelligence. For over four deades the boffins tried to program computers to "understand" the structure and phonetics of language. This meant defining rules such as where nouns and verbs go in a sentence, which are the correct tenses and so on. All the exceptions to the rules needed to be programmed in too. Google, by contrast, saw it as a big maths problem

that could be solved with a lot of data and processing power—and came up with something very useful.

For translation, the company was able to draw on its other services. Its search system had copies of European Commission documents, which are translated into around 20 languages. Its book-scanning project has thousands of titles that have been translated into many languages. All these translations are very good, done by experts to exacting standards. So instead of trying to teach its computers the rules of a language, Google turned them loose on the texts to make statistical inferences.



Google Translate now covers more than 50 languages, according to Franz Och, one of the company's engineers. The system identifies which word or phrase in one language is the most likely equivalent in a second language. If direct translations are not available (say, Hindi to Catalan), then English is used as a bridee.

Google was not the first to try this methol. In the early 3990s 18m tried to build a French-English program using translations from Canada's Parliament. But the system did not work well and the project was abandoned. 18m had only a few million documents at its disposal, says Mr Och dismissively. Google has billions. The system was first developed by processing almost 2 using trillion words. But although it learns from a big body of data, it lacks the recursive qualities of swell-theck and search.

The design of the feedback loop is critical. Google asks users for their opinions, but not much else. A translation start-up in Germany called Linguee is trying something different: it presents users with snippets of possible translations and asks them to click on the best. That provides feedback on which version is the most accurate.

Woice recognition highlights the importance of making use of date exhaust. To use Google's telephone directory or audio car navigation service, customers dial the relevant number and say what they are looking for. The system repeats the information; when the customer confirms it, or repeats the query, the system develops arecord of the different ways the target word can be spoken. It does not learn to understand voice; it computes probabilities.

To launch the service Google needed an existing voice-recognition system, so it licensed software from Nuance, a leader in the field. But Google itself keeps the data from voice queries, and its voice-recognition system may end up performing better than Nuance's—which is now trying to get access to lots more data by partnering with everyone in sight.

Re-using data represents a new model for how computing is done, says Edward Felten of Princeton University. "Looking at large data sets and making inferences about what goes together is advancing more rapidly than expected. 'Understanding' turns out to be overrated, and statistical analysis goes a lot of the way." Many internet companies now see things the same way. Facebook regularly examines its huge databases to boost usage. It found that the best single predictor of whether members would contribute to the site was seeing that their friends had been active on it, so it took to sending members information about what their friends had been up to online. Zynga, an online games company, tracks its 100m unique players each month to improve its games.

"If there are user-generated data to be had, then we can build much better systems than just trying to improve the algorithms." say Andreas Weigend, a former chief scientist at Amazon who is now at Stanford University. Marc Andreasem, a venture capitalist who sits on numerous boards and was one of the founders of Netscape, the web's first commercial browser, thinks that "these new companies have built a culture, and the processes and the technology to deal with large amounts of data, that traditional companies may be only have."

Recycling data exhaust is a common theme in the myriad projects going on in Google's empire and helps explain why almost all of them are labelled as a "beta" or >> • early test version: they ruly are in continuous development. A service that lets Google users store medical records might also allow the company to spot valuable patterns about dissease and treatments. A service where users can monitor their use of electricity, device by device, provides rich information on energy consumption. It could become the world's best database of household appliances and consumer electronics—and even foresee breakdowns. The aggregated search queries, which the

company makes available free, are used as remarkably accurate predictors for everything from retail sales to flu outbreaks.

Together, all his sin line with the company's audacious mission to 'organisa' now words' information'. Yet the words are carefully chosen: Google does not need to own the data. Usually all it wantis to have access to them (and see that its rival) on.0. In an initiative called 'Data Liberation From' that quiety began last September, Google is planning to religa all its ser-

vices so that users can discontinue them very easily and take their data with them. In an industry built on locking in the customer, the company says it wants to reduce the "barriers to exit". That should help save its engineers from complacency, the curse of many a tech champion. The project is engineer from complacency, the curse of many a tech champion. The project might stall lift is strated to hurt the business. But perhaps Google reckons that users will be more inclined to share their information with tiff they know that they can easily take it back.

## The open society

Governments are letting in the light

FROM antiquity to modern times, the nation has always been a product of information management. The ability to impose taxes, promulgate laws, count citizens and raise an army lies at the heart of statehood. Yet something new is about. These days democratic openness means more than that citizens can vote at regular intervals in free and fair elections. They also expect to have access to government data.

The state has long been the biggest genentor, collector and user of data. It keeps records on every birth, marriage and death, compiles figures on all aspects of the economy and keeps statistics on licences, laws and the weather. Yet until recently all these data have been locked tight. Even when publicly accessible they were hard to find, and aggregating lots of printed information is notionally difficult.

But now citizens and non-governmenationganisations the world over are pressing to get access to public data at the national, state and municipal level-and sometimes government officials enthusisatically support them. "Government information is a form of infrastructure, no less important to our modern life than orads, electrical grid of r water systems," says Carl Malamud, the boss of a group called Public-Resource. Org that puts government data online. He was responsible for making the databases of America's Securities and Exchange Commission available on the web in the early spose

America is in the lead on data access. On his first full day in office Barack Obama issued a presidential memorandum ordering the heads of federal agencies to make available as much information as possible, urging them to act "with a clear presump-

tion: in the face of doubt, openness prevails". This was all the more remarkable since the Bush administration had explicitly instructed agencies to do the opposite.

Mr Obama's directive caused a flurry of activity, it is now possible to obtain figures on job-related deaths that name employers, and to get annual data on migration free. Some information that was previously available but hard to get at, such as the Federal Register, a record of government notices, now comes in a computer read-bale format. It is all on a public website, datagow. And more information is being released all the time. Within 48 hours of data on flight delays being made public, a website had sorume up to disseminate them.

Providing access to data "creates a culture of accountability", says Vivek Kundra, the federal government's cro. One of the first things he did after taking office was to create an online "dashboard" detailing the government's own \$70 billion technology spending. Now that the information is freely available, Congress and the public can ask questions or offer suggestions. The model will be applied to other areas, perhaps including health-care data, says Mr Kundra-provided that looming privacy is sues can be resolved.

All this has made a big difference. There is a cultural change in what people expect from government, fuelled by the experience of shopping on the internet and having real-time access to financial information, "says John Wonderlich of the Sunlight Foundation, which promotes open government. The economic crisis has speeded up that change, particularly in state and city governments.

"The city is facing its eighth budget

shortfall. We're looking at a 50% reduction in operating funds," says Chris Vein, San Francisco's CIO. "We must figure out how we change our operations." He insists that providing more information can make government more efficient. California's generous "sunshine laws" provide the necessary legal backing. Among the first users of the newly available data was a site called "San Francisco Crimespotting" by Stamen Design that layers historical crime figures on top of map information. It allows users to play around with the data and spot hidden trends. People now often come to public meetings armed with crime maps to demand police patrols in their particular area.

Anyone can play

Other cities, including New York, Chicago and Washington, Do, are racing ahead as well. Now that citizens' groups and companies have the raw data, they can use them to improve city services in ways that cash-strapped local governments cannot. For instance, cleanscores.com puts restaurants' health-inspection scores online; out restise list children's activities or help people find parking spaces. In the past government would have been pressed to provide these services; now it simply supplies the data. Mr Vein concedes, however, that "we don't know what is useful or not. This is a grand experiment."

Other parts of the world are also beginning to move to greater openness. A European Commission directive in 2005 called for making public-sector information more accessible (but it has no bite). Europe's digital activists use the web to track politicians and to try to improve public > services. In Britain FixMyStreet.com gives citizens the opportunity to flag up local problems. That allows local authorities to find out about people's concerns; and once the problem has been publicly aired it becomes more difficult to imore.

One obstacle is that most countries lack America's open-government ethos, nurtured over decades by laws on ethics in government, transparency rules and the Freedom of Information act, which acquired teeth after the Nixon years.

An obstacle of a different sort is Crown copyright, which means that most government data in Britain and the Commonwealth countries are the state's property, constraining their use. In Britain postcodes and Ordnance Survey map data at present cannot be freely used for commercial purposes—a source of loud complaints from businesses and activists. But from later this year access to some parts of both data sets will be free, thanks to an initiative to bring more government services online.

But even in America access to some government information is restricted by financial barriers. Remarkably, this applies to court documents, which in a democracy should surely be free. Legal records are public and available online from the Administrative Office of the US Courts (AOUSC), but at a costly eight cents per page. Even the federal government has to pay; between 2000 and 2008 it spent \$500 mt (or get access to its own records. Yet the AOUSC is currently paying \$\$500 mover ten years to two companies, WestLaw and LexisNexis, to publish the material online

(albeit organised and searchable with the firms' technologies). Those companies, for their part, earn an estimated \$2 billion annually from selling American court rulings and extra content such as case reference guides. "The law is locked up behind a cash register," says Mr Malamud.

The two firms say they welcome competition, pointing to their strong search technology and the additional services they provide, such as case summaries and useful precedents. It seems unlikely that they will keep their grip for long. One administration official privately calls freeing the information a "no-brainer," Even Google has begun to provide some legal documents online.

#### Change agent

The point of open information is not merety to expose the world but to change it. In recent years moves towards more transparency in government have become one of the most vibrant and promising areas of public policy. Sometimes information disclosure can achieve policy aims more effectively and at far lower cost than traditional regulation.

In an important shift, new transparency requirements are now being used by government—and by the public—to hold the private sector to account. For example, it had proved extremely difficult to persuade Ametican businesses to cut down on the use of harmful chemicals and their release into the environment. And do not a 1986 law required firms simply to disclose what they release, including "by computer telecommunications". Even to supporters it seemed like a fulge, but it turned out to be a resounding success. By 2000 American businesses had reduced their emissions of the chemicals covered under the law by 40%, and over time the rules were actually tightened. Public scrutny achieved what legislation could not.

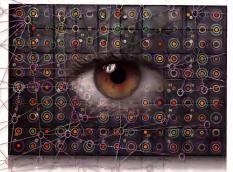
may admired what tegs sattor focus in Art.
There have been many other such successes in areas as diverse as restaurant santiation, car safety, nutrition, home loans for
minorities and educational performance,
note Archon Pung, Mary Graham and David Weilof the Transparency Policy Project
at Harvard's Kennedy School of Government in their book "Full Disclosure". But
transparency alone is not enough. There
has to be a community to champion theirformation. Providers need an incentive to
supply the data as well as penalties for
withholding them. And web developers
have to find ways of ensuring that the public data being released are used effectively.

MF Rung thinks that as governments release more and more information about the things they do, the data will be used to show the public sector's shortcomings rather than to highlight its achievements. Another concern is that the accuracy and quality of the data will be found wanting (which is a problem for business as well as for the public sector). There is also a debate over whether governments should merely supply the raw data or get involved in processing and displaying them too. The concern is that they might manipulate them but then so might anyone des.

Public access to government figures is certain to release economic value and encourage entrepreneurship. That has already happened with weather data and with America's GPs satelliten avigation system that was opened for full commercial use a decade ago. And many firms make a good living out of searching for or repackaging patent filines.

Moreover, providing information opens up new forms of collaboration between the public and the private sectors. Beth Noveck, one of the Obama administration's recruits, who is a law professor and author of a book entitled "Wilki Government", has spearheaded an initiative called peer-to-patent that has opened up some of America's patent filings for public inspection.

John Stuart Mill in 1861 called for "the widest participation in the details of judicial and administrative business...above all by the utmost possible publicity." These days, that includes the greatest possible disclosure of data by electronic means.





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## Show me

New ways of visualising data

A special report on managing information

IN 1998 Martin Wattenberg, then a graphic designer at the magazine SmartMoney in New York, had a problem. He wanted to depict the daily movements in the stockmarket, but the customary way, as a line showing the performance of an index over time, provided only a very broad overall picture. Every day hundreds of individual companies may rise or fall by a little or a lot. The same is true for whole sectors. Being able to see all this information at once could be useful to investors. But how to make it visually accessible?

Mr Wattenberg's brilliant idea was to dadpt an existing technique to create a dadpt and existing technique to create a "Map of the Market" in the form of a grid. It used the day's closing share price to show more than 500 companies arranged by sector. Shades of green or red indicated whether a share had risen or fallen and by how much, showing the activity in every sector of the market. It was an instant hit—and brought the nascent field of data visualisation to a maintream audientalisation to a maintream

In recent years there have been big advances in displaying massive amounts of data to make them easily accessible. This is emerging as a vibrant and creative field melding the skills of computer science, statistics, artistic design and storytelline.

"Every field has some central tension it is trying to resolve. Visualisation deals with the inhuman scale of the information and the need to present it at the very human scale of what the eye can see," says Mr Wattenberg, who has since moved to IBM and now spearheads a new generation of data-visualisation specialists.

Market information may be hard to display, but at least the data are numerical. Words are even more difficult. One way of depicting them is to count them and present them in clusters, with more common ones shown in a proportionately larger font. Called a "word cloud", this method is popular across the web. It gives a rough indication of what a body of text is about.

Soon after President Obama's inauguration a word cloud with a gaphical semiotic representation of his arminutes peech appeared on the web. The three most common words were nation, America and people. His predecessor's had been freedom, America and liberty, Abraham Lincolhad majored on war, God and offence. The technique has a utility beyond identitying themes. Social-networking sites let users "arg" pages and images with words describing the content. The terms displayed in a "tag cloud" are links that will bring up a list of the related content.

Another way to present text, devised by Mr Wattenberg and a colleague at IBM, Fernanda Viégas, is a chart of edits made on Wikipedia. The online encyclopedia is written entiterly by volunteres. The software creates a permanent record of every edit to show exactly who changed what, and when. That amounts to a lot of data over time.

One way to map the process is to assign under the different colours to different users and different colours to different users and show how much of their contribution research to the state of the sta

Is it art? Is it information? Some data-visual works have been exhibited in places such as the Whitney and the Museum of Modern Art in New York. Others have been turned into books, such as the web project "We Feel Fine" by Jonathan Harris and Sep Kamwa, which captures every instance of the words "feel" or "feeling" on Writter, a social-networking site, and matches it to time, location, age, sex and even the western.

For the purposes of data visualisation as many things apossible are reduced to raw data that can be presented visually, sometimes in unexpected ways. For instance, a representation of the sources ticted in the journal Nature gives each course publication a line and identifies different scientific fields in different colours. This makes it easy to see that biology sources are most heavily cited, which is unsurprising. But it also shows, more unexpectedly, that the publications most heavily cited include the Physical Review Letters and Astrophysical Orange 100 pt. 100 p

#### The art of the visible

Resembling a splendid orchid, the Nature chart can be criticased for being more picturesque than informative; but whether it is more art or more information, it offers a new way to look at the world at a time when almost everything generates huge swathes of data that are hard to understand. If a picture is worth a thousand words, an infographic is worth an awful lot of data points.

Visualisation is a relatively new discipline. The time series, the most common form of chart, did not start to appear in scientific writings until the late 18th century, notes Edward Inftein his classic "The Visual Display of Quantitative Information", the bible of the business. Today's infographics experts are pioneering a new me dium that presents meaty information in a compelling narrative: "Something in-between the textbook and the novel", writes Nathan Yau of UCLA in a recent book, "Beautiful Data".

#### It's only natural

The brain finds it easier to process information if it is presented as an image rather than as words or numbers. The right hemisphere recognises shapes and colours. The left side of the brain processes information in an analytical and sequential way and is more active when people read text or look at a spreadsheet. Looking through a numerical table takes a lot of mental effort, but information presented visually can be grasped in a few seconds. The brain identifies patterns, proportions and relationships to make instant subliminal comparisons. Businesses care about such things. Farecast, the online price-prediction service, hired applied psychologists to design the site's charts and colour schemes.

These graphics are often based on immense quantities of data\_leffer yifer of Stanford University helped develop sense.us, a website that gives people access to American census data going back more than a century. Ben Pry, an independent designer, created a map of the 26m roads in the continental United States. The dense communities of the north-east form a powerful contrast to the desolate far west. Aaron Koblin of Google plotted a map of every commercial flight in America over 24 hours, with brighter lines identifying routes with heavier traffic.

Such techniques are moving into the business would. Mr Fy designed interactive charts for Gr's health-care division that show the costs borne by patients and insurers, respectively, for common diseases throughout people's lives. Among media companies the New York Times and the Guardian in Britain have been the most ambitious, producing data-rich, interactive graphics that are strong enough to stand on their own.

The tools are becoming more accessible. For example, Tableau Software, co-founded in 2003 by Pat Hanrahan of Standrod University, does for visualising data what word-processing did for text, allowing anyone to manipulate information creatively. Tableau offers both free and paid-for products, as does a website called Swivelecom. Some sites are entirely free. Google and an 181M website called Many Eyes let people upload their data to display in novel ways and share with others.

Some data sets are best represented as a

## Needle in a haystack

The uses of information about information

As DATA become more abundant, the main problem is no longer finding the information as such but laying one's hands on the relevant bits easily and quickly. What is needed is information about information. Librarians and computer scientists call it metadata.

Information management has a long instory. In Assyria around three millennia ago day tablets had small clay labels attached to them to make them easier to tell apart when they were filed in baskets or on shelves. The idea survived into the adotherantly in the shape of the little catalogue cards librarians used to note down a book's title, author, subject and so on before the records were moved onto computers. The actual books constituted the data, the catalogue cards the metadata. Other examples include package labels to the 5 billion bar codes that are scanned throughout the world ever qu'a

These days metadata are undergoing a virtual renaisance. In order to be useful, the cornucopia of information provided by the internet has to be organised. That is what Google does so well. The raw material for its search engines comes free: web pages on the public internet. Where it adds value (and creates metadata) is by structuring the information, ranking it in order of its relevance to the query.

Google handles around half the world's internet searches, answering around 35,000 queries every second. Metadata are a potentially luctuative business. "If you can control the pathwaysval and means of finding information, you can extract rents from subsequent levels of producers," explains Ell Noum, a telecome economist at New York's Columbia Business School. But there are more be-

moving image. As print publications move to e-readers, animated infographics will eventually become standard. The software Gapminder elegantly displays four dynamic variables at once.

Displaying information can make a difference by enabling people to understand complex matters and find creative solutions. Valdis Krebs, a specialist in mapping social interactions, recalls being nign uses too. For example, photos uploaded to the website Flickr contain metadata such as when and often where they were snapped, as well as the camera model—useful for would-be buyers.

Internet users help to label unstructured information so it can be easily found, tagging photos and videos. But they disdain conventional library classifications. Instead, they pick any word they fancy, creating an electic "follosnomy". So instead of labelling a photograph of Barack Obama as "president", they might call it "sexy" or "so is". That sounds chaotic, but meedn't joi, but meedn't joi, but meedn't joi, but meedn't joi.

When information was recorded on a tangible medium-paper, film and so oneverything had only one correct place. With digital information the same item can be filed in several places at once, notes David Weinberger, the author of a book about taxonomy and the internet, "Everything is Miscellaneous". Digital metadata make things more complicated and simpler at the same time.



called in to help with a corporate project that was vastly over budget and behind schedule. He drew up an intricate network map of e-mail traffic that showed distinct clusters, revealing that the teams involved were not talking directly to each other but passing messages via managers. So the company changed its office layout and its work processes—and the project quickly got back on track.

## New rules for big data

Regulators are having to rethink their brief

TWO centuries after Gutenberg inventied movable type in the mid-aboos there
were plenty of books around, but they
were expensive and poorly made. In Britain a cartel had a lock on classic works
such as Shakespear's and Millon's. The
first copyright law, enacted in the early
yoos in the Bard's home country, was designed to free knowledge by putting books
in the public domain after a short period of
exclusivity, around 14 years. Laws protecting free speed did not emerge until the
late 18th century. Before print became
widespread the need was limited.

Now the information flows in an era of abundant data are changing the relationship between technology and the role of the state once again. Many of today's rules look increasingly archaic. Privacy laws were not designed for networks. Rules for document retention presume paper records. And since all the information is interconnected, it needs global rules.

New principles for an age of big data sets will need to cover six broad areas: privacy, security, retention, processing, ownership and the integrity of information.

Privacy is one of the biggest worries. People are disclosing more personal information than ever. Social-networking sites and others actually depend on it. But as databases grow, information that on its own cannot be traced to a particular individual can often be unlocked with just a bit of computer effort.

This tension between individuals' interest in protecting their privacy and companies' interest in exploiting personal information could be resolved by giving people more control. They could be given the right to see and correct the information about them that an organisation holds, and to be told how it was used and with whom it was shared.

Today's privacy rules aspire to this, but fall short because of technical difficulties which the industry likes to exaggerate. Beter technology should eliminate such problems. Besides, firms are already spending a great deal on collecting, sharing and processing the data; they could divert a sliver of that money to provide greater individual control.

The benefits of information security-



protecting computer systems and networks—are inherently invisible if threats have been averted, things work as normal. That means it often gets neglected. One way to deal with that isto disclose more information. A pioneeting law in California in 2003 required companies to notify people if a security breach had compromised their personal information, which pushed companies to invest more in prevention. The model has been adopted in other states and could be used more widely.

In addition, regulators could require large companies to undergo an annual information-security audit by an accredited third party, similar to financial audits for listed companies. Information about vulnerabilities would be kept confidential, but it could be used by firms to improve their practices and handed to regulators if problems arose. I could even be a requirement for insurance coverage, allowing a market for information security to emerge.

Current rules on digital records state that data should never be stored for longer than necessary because they might be misused or inadvertently released. But Viktor Mayer-Schönberger of the National University of Singapore worries that the increasing power and decreasing price of

computers will make it too easy to hold on to everything. In his recent book "Delete" he argues in favour of technical systems that "forget": digital files that have expiry dates or slowly degrade over time.

Yet regulation is pushing in the opposite direction. There is a social and political expectation that records will be kept, says the Peter Allen of cosc, a technology provider. "The more we know, the more we are expected to know-for ever." American security officials have pressed companies to keep records because they may hold clues after a terrorist incident. In future it is more likely that companies will be required to retain all digital files, and ensure their accuracy, than to delete them.

Processing data is another concern. lan Ayres, an economist and lawyer at Yale University and the author of "Super-Crunchers', a book about computer algorithms replacing human intuition, frets about the legal implications of using statistical correlations. Rebecca Goldin, a mathematician at George Mason University, goes further she worries about the "ethics of super-crunching". For example, racial discrimination against an applicant for a bank loan is illegal. But what if a computer model factors in the educational level of • the applicant's mother, which in America is strongly correlated with race? And what if computers, just as they can predict an individual's susceptibility to a disease from other bits of information, can predict his predisposition to committing a crime?

A new regulatory principle in the age of big data, then, might be that people's data cannot be used to discriminate against them on the basis of something that might or might not happen. The individual must be regarded as a free agent. This idea is akin to the general rule of national statistical offices that data gathered for surveys cannot be used against a person for things like deporting illegal immigrants—which, alas, has not always been respected.

Privacy rules lean towards treating personal information as a property right. A reasonable presumption might be that the trail of data that an individual leaves behind and that can be traced to him, from clicks on search engines to book-buying preference, belong to that individual, not the entity that collected it. Google's "data in this report points in that direction. That might create a marker for information. Indeed," data portability "stimulates conditions are also as the condition of the condition

Ensuring the integrity of the information is an important part of the big data age. When America's secretary of state, Hillary Clinton, lambasted the Chinese in January for allegedly hacking into Google's computers, she used the term "the global networked commons". The idea is that the internet is a shared environment, like the oceans or airspace, which requires international co-operation to make the best use of it. Censorship pollutes that environment. Disrupting information flows not only violates the integrity of the data but quashes free expression and denies the right of assembly. Likewise, if telecoms operators give preferential treatment to certain content providers, they undermine the idea of "network neutrality".

Governments could define best practice on dealing with information flows and the processing of data, just as they require firms to label processed foods with the ingredients or impose public-health standards. The World Trade Organisation, which oversees the free flow of physical trade, might be a suitable body for keeping digital goods and services flowing too. But it will not be quick or easy.

## Handling the cornucopia

The best way to deal with all that information is to use machines. But they need watching

'N 2002 America's Defence Advanced Research Projects Agency, best known for developing the internet four decades ago, embarked on a futuristic initiative called Augmented Cognition, or "AugCog". Commander Dylan Schmorrow, a cognitive scientist with the navy, devised a crown of sensors to monitor activity in the brain such as blood flow and oxygen levels. The idea was that modern warfare requires soldiers to think like never before. They have to do things that require large amounts of information, such as manage drones or oversee a patrol from a remote location. The system can help soldiers make sense of the flood of information streaming in. So if the sensors detect that the wearer's spatial memory is becoming saturated, new information will be sent in a different form, say via an audio alert instead of text. In a trial in 2005 the device achieved a 100% improvement in recall and a 500% increase in working memory.

Is this everybody's future? Probably not. But as the forrent of information increases, it is not surprising that people feel overwhelmed. "There is an immense risk of cognitive overload," explains Carl Pabo, a molecular biologist who studies cognition. The mind can handle seven pieces of information in its short-term memory and can generally deal with only four concepts.

or relationships at once. If there is more information to process, or it is especially complex, people become confused.

Moreover, knowledge has become so specialised that it is impossible for any individual to grasp the whole picture. A true understanding of climate change, for instance, requires a knowledge of meteorology, chemistry, economics and law, among many other things. And whereas doctors a century ago were expected to keep up with the entire field of medicine, now they would need to be familiar with about 10,000 diseases, 3,000 drugs and more than 1,000 lab tests. A study in 2004 suggested that in epidemiology alone it would take 21 hours of work a day just to stay current. And as more people around the world become more educated, the flow of knowledge will increase even further. The number of peer-reviewed scientific papers in China alone has increased 14-fold since 1990 (see chart 3, next page).

"What information consumes is rather obvious: it consumes the attention of its recipients," wrote Herbert Simon, an economist, in 1971. "Hence a wealth of information creates a poverty of attention." But just as it is machines that are generating most of the data deluge, so they can also be put to work to deal with it. That highlights the role of "information intermediaties."

People rarely deal with raw data but consume them in processed form, once they have been aggregated or winnowed by computers. Indeed, many of the technologies described in this report, from business analytics to recursive machine-learning to visualisation software, exist to make data more digestible for humans.

Some applications have already becomes ow idespread that they are taken for
granted. For example, banks use credit
scores, based on data about past financial
transactions, to judge an applicant's ability
to repay a loan. That makes the process less
subjective than the says so of a bank manager. Likewise, landing a plane requires a
lor of mental effort, so the process has been
largely automated, and both plots and
passengers feel safer. And in health care
the trend is towards "evidence-based
medicine", where not only doctors but
computers too get involved in diagnosis
and treatment.

The dangers of complacency

In the age of big dafa, algorithms will be doing more of the thinking for people. But that carries risks. The technology is far less reliable than people realise. For every success with big data there are many failures. The inability of banks to understand their risks in the lead-up to the financial crisk is is

 one example. The deficient system used to identify potential terrorists is another.

On Christmas Day last year a Nigerian man, Umar Farouk Abdulmutallab, tried to ignite a hidden bomb as his plane was landing in Detroit. It turned out his father had informed American officials that he posed a threat. His name was entered into a big database of around 550,000 people who potentially posed a security risk. But the database is notoriously flawed. It contains many duplicates, and names are regularly lost during back-ups. The officials had followed all the right procedures, but the system still did not prevent the suspect from boarding the plane.

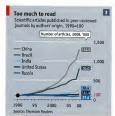
One big worry is what happens if the technology stops working altogether. This is not a far-fetched idea. In January 2000 the torrent of data pouring into America's National Security Agency (NSA) brought the system to a crashing halt. The agency was "brain-dead" for three-and-a-half days, General Michael Hayden, then its director, said publicly in 2002. "We were dark. Our ability to process information

was gone." If an intelligence agency can be hit in this way, the chances are that most other users are at even greater risk. Part of the solution will be to pour more resources into improving the performance of existing technologies, not just pursue more innovations. The computer industry went through a similar period of reassessment in 2001-02 when Microsoft and others announced that they were concentrating on making their products much more secure rather than adding new features.

Another concern is energy consumption. Processing huge amounts of data takes a lot of power. "In two to three years we will saturate the electric cables running into the building," says Alex Szalay at Johns Hopkins University, "The next challenge is how to do the same things as today, but with ten to 100 times less power."

It is a worry that affects many organisations. The NSA in 2006 came close to exceeding its power supply, which would have blown out its electrical infrastructure. Both Google and Microsoft have had to put some of their huge data centres next to hydroelectric plants to ensure access to enough energy at a reasonable price.

Some people are even questioning whether the scramble for ever more information is a good idea. Nick Bostrom, a philosopher at Oxford University, identifies "information hazards" which result from disseminating information that is likely to cause harm, such as publishing the blue-



print for a nuclear bomb or broadcasting news of a race riot that could provoke further violence, "It is said that a little knowledge is a dangerous thing," he writes. "It is an open question whether more knowledge is safer." Yet similar concerns have been raised through the ages, and mostly proved overblown.

#### Knowledge is power

The pursuit of information has been a human preoccupation since knowledge was first recorded. In the 3rd century BC Ptolemy stole every available scroll from passing travellers and ships to stock his great library in Alexandria. After September 11th 2001 the American Defence Department launched a program called "Total Information Awareness" to compile as many data as possible about just about everything-emails, phone calls, web searches, shopping transactions, bank records, medical files. travel history and much more, Since 1996

Brewster Kahle, an internet entrepreneur, has been recording all the content on the web as a not-for-profit venture called the "Internet Archive". It has since expanded to software, films, audio recordings and scanning books.

There has always been more information than people can mentally process. The chasm between the amount of information and man's ability to deal with it may be widening, but that need not be a cause for alarm. "Our sensory and attentional systems are tuned via evolution and experience to be selective," says Dennis Proffitt, a cognitive psychologist at the University of Virginia. People find patterns to compress information and make it manageable. Even Commander Schmorrow does not think that man will be replaced by robots. "The flexibility of the human to consider as-yet-unforeseen consequences during critical decision-making, go with the gut when problem-solving under uncertainty and other such abstract reasoning behaviours built up over years of experience will not be readily replaced by a computer algorithm," he says.

The cornucopia of data now available is a resource, similar to other resources in the world and even to technology itself. On their own, resources and technologies are neither good nor bad; it depends on how they are used. In the age of big data, computers will be monitoring more things, making more decisions and even automatically improving their own processes-and man will be left with the same challenges he has always faced. As T.S. Eliot asked: "Where is the wisdom we have lost in knowledge? Where is the knowledge we have lost in information?"

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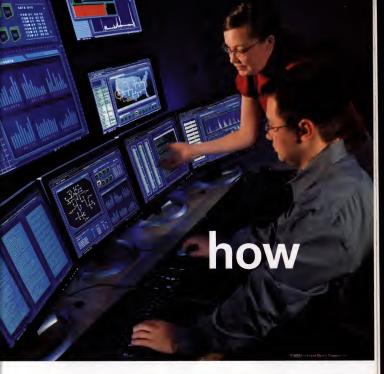
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one example. The deficient system used to identify potential terrorists is another.

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One big worry is what happens if the technology stops working altogether. This is not a far-fetched idea. In January 2000 the torrent of data pouring into America's National Security Agency (NsA) brought he system to a crashing halt. The agency was "brain-dead" for three-and-a-half days, General Michael Hayder, then its director, said publicly in 2002. "We were dark. Our ability to process information

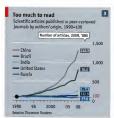
was gone."

If an intelligence agency can be hit in this way, the chances are that most other users are at even greater risk. Part of the solution will be to pour more resources into improving the performance of existing technologies, not just pursue more innovations. The computer industry went through a similar period of reassessment in 2001-02 when Microsoft and others announced that they were concentrating on making their products much more secure rather than adding new features.

Another concern is energy consumption. Processing huge amounts of data takes a lot of power. "In two to three years we will saturate the electric cables running into the building," says Alex Szalay at Johns Hopkins University. "The next challenge is how to do the same things as today, but with ten to 100 times less power."

It is a worry that affects many organisations. The NSA in 2006 came close to exceeding its power supply, which would have blown out its electrical infrastructure. Both Google and Microsoft have had to put some of their huge data centres next to hydroelectric plants to ensure access to enough energy at a reasonable price.

Some people are even questioning whether the scramble for ever more information is a good idea. Nick Bostrom, a philosopher at Oxford University, identifies "information hazards" which result from disseminating information that is likely to cause harm, such as publishing the blue



print for a nuclear bomb or broadcasting news of a race riot that could provoke further violence. "It is said that a little knowledge is a dangerous thing," he writes. "It is an open question whether more knowledge is safer." Yet similar concerns have been raised through the ages, and mostly proved overblown.

#### Knowledge is power

The pursuit of information has been a human proccupation since knowledge was first recorded. In the ard century ac Ptolemy stole every available scroll from passing travellers and ships to stock his great library in Alexandria. After September inhorout the American Defence Department launched a program called "Total Information Awareness" to compile as many data as possible about just about everything—mails, phone calls, web searches, shopping transactions, bank records, medical files, travel history and much more. Since 1906

Brewster Kahle, an internet entrepreneur, has been recording all the content on the web as a not-for-profit venture called the "Internet Archive". It has since expanded to software, films, audio recordings and scannine books.

There has always been more information than people can mentally process. The chasm between the amount of information and man's ability to deal with it may be widening, but that need not be a cause for alarm. "Our sensory and attentional systems are tuned via evolution and experience to be selective," says Dennis Proffitt, a cognitive psychologist at the University of Virginia. People find patterns to compress information and make it manageable, Even Commander Schmorrow does not think that man will be replaced by robots. "The flexibility of the human to consider as-yet-unforeseen consequences during critical decision-making, go with the gut when problem-solving under uncertainty and other such abstract reasoning behaviours built up over years of experience will not be readily replaced by a computer algorithm," he says.

The cornucopia of data now available is a resource, similar to other resources in the world and even to technology isself. On their own, resources and technologies on the world and even to technology isself, on their own, resources and technologies are neither good nor bad, it depends on how they are used. In the age of big data, computers will be monitoring more things, making more decisions and even automatically improving their own processes—and man will be left with the same challenges he has always faced. As T.S. El tot asked: "Where is the wisdom we have lost in knowledge? Where is the knowledge where is the vision in formation?"

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Israel's controversial intelligence service

# Does Mossad really make Israel safer?

TERUSALEM

In the wake of the assassination of a Hamas leader in Dubai, presumably by Mossad, the agency's effectiveness, attitude and leadership are under scrutiny

ALTHOUGH they stolidly refuse to admit that their external security service had done it, Israeli officials say they are confident that in Europe and elsewhere outrage over the recent assassination in Dubai of a Hamas commander will quickly blow over. Israeli ambassadors were called in and carpeted in London, Canberra and Dublin over stolen passports and identities used by the team that killed Mahmoud al-Mabhouh and was later exposed by the Dubai police. EU foreign ministers have "strongly condemned" the action. But the Israelis, seeking to minimise the damage, note innocently that the complaints focused on the passports rather than the actual killing-and anyway stopped short of explicitly fingering Mossad.

Indeed, despite the meticulous closedcircuit television records of the comings and goings through Dubai's airport and hotels, Mossad people still say, with an almost straight face, that the evidence is circumstantial. A former spymaster, Rafi Eitan, even suggested half in jest that a rival service may have framed the Israelis.

In any event, even though they do not admit their involvement, the Israelis are portraying Mr Mabhouh's demise as part of a wider war waged by Israel together with the West and its own secret services. The Israelis stress that Hamas, the Palestinian Islamist group, is as much the West's enemy as it is Israel's. So, they add, is Hizbullah, the Lebanese group. Both, they note, are clients of Iran.

Israel says Mr Mabhouh was a kidnapper and murderer who, more recently, had procured arms, chiefly from Iran, The Israelis want to block the flow of weapons, especially rockets, into Gaza, which Hamas runs. To this end, they have raided ships off the Horn of Africa and bombed a convoy of lorries in eastern Sudan. "This is the broader background to what happened in Dubai," says an Israeli familiar with Mossad. "Friendly governments know it full well"-and tacitly, he says, approve.

Still, the choice of Dubai, a commercial hub with friendly ties to the West, as a venue for the assassination has discomfited some Israelis in intelligence circles. They want Meir Dagan (pictured above), now into his eighth year as Mossad's head, to make way for a younger man. Insiders say he has kept down potential successors, making it hard for Binyamin Netanyahu, Israel's prime minister, to sack him.

A power struggle in Mossad would come at a bad time for Israel. The Dubai imbroglio comes just as the agency faces its hardest test in more than a decade. During his first term as prime minister (1996-99), Mr Netanyahu told Mossad to prevent Iran, by every means other than military force, from getting a nuclear weapon. Mossad's head is responsible in the Israeli hierarchy for both political and clandestine efforts to stymie Iran's nuclear ambitions and to collect and share intelligence on that score with other governments.

Leaked reports over the years suggest

the Israelis have had some success in slowing the Iranians down. More recently, however, it has been reported that Mossad may have run out of tricks to that end, Israeli intelligence sources, however, say that is not so. A mix of non-military methods to monitor and disrupt Iran's nuclear plans is still, they say, working. Yet they do not, understandably, rule out the eventual use of direct force against Iran's nuclear facilities. For the time being, Mr Netanyahu is urging "crippling sanctions". By the same token, a Mossad source

says that cloak-and-dagger operations still have their uses, even though ultra-modern electronic and biometric skills, used with surprising efficiency (in Israeli eyes) by Dubai's police, make such operations, involving wigged disguises and old-style skulduggery, harder to pull off. "But every technical problem is a challenge," says the source, "Rest assured our leading intelligence agencies are working on solutions."

Thoughtful Israeli critics of Mossad, of its swashbuckling director and of Mr Netanyahu, say the intelligence service has two other defects that should be tackled: arrogance and complacency. A pernicious "superiority complex", says a former intelligence man, has taken root in both Mossad and Shin Bet, the internal security service also known by its Hebrew acronym, Shabak. The apparent success with which they have monitored and infiltrated Palestinians in the West Bank has created an attitude of condescension that inhibits peacemaking.

Only this week it was revealed, amid Israeli intelligence chuckles, that a Hamas founder's son had been a long-serving Shin Bet agent. Why bother to negotiate with the Palestinians, some intelligence people may feel, when they can be constantly hamstrung by such trickery? Others, however, disagree. Much may depend on Mr Dagan's succession.

Israeli spies in Lebanon

### Not such a success

A round-up of Israeli spies

WITH a lot less exposure in the world's press than it got for its recent Dubai operation, Israel has quietly suffered a string of setbacks in Lebanon, a front-line state with which it has often been at war. Lebanon's security service says that since November 2008 it has broken up no fewer than 25 Israeli spy rings. The reported arrest this month of a colonel in Lebanese army intelligence, identified solely by the initials GS, brings the number of those charged to 70-plus; 40 of them are in Lebanese police custody.

For a force better known for its failure to manage traffic, let alone resolve Lebanon's sorry catalogue of political murders, the counter-intelligence sweep is an unprecedented coup. The arrests are said to have exposed a series of agents for Israel, ranging from a retired Lebanese army general who ran a housecleaning service to a garage owner who specialised in supplying Hizbullah. Lebanon's Shia party-cum-militia, with vehicles that he secretly fitted with tracking devices.

Some are said to have worked for the Israelis since the 1980s, whereas others were recruited after Israel's war against Hizbullah in 2006. Earlier this month a Lebanese court sentenced two such agents to death for blowing up a Palestinian Islamist leader and his brother in a car in 2006. One is charged separately with killing two top Hizbullah men, as well as the son of Ahmad Jibril, past head of a Palestinian guerrilla group.

Aside from the alleged spies, the Lebanese say they netted fancy surveillance and communications gear disguised, among other innocuous things, as Thermos flasks, canisters of motor oil and battery chargers. The gadgetry may be what gave the game away. Security sources hint that France or perhaps Russia helped the Lebanese by supplying sophisticated systems to monitor and analyse the telecoms data. The Lebanese then homed in on suspicious

Another clue may have pointed to the importance of the signals trail. Last summer, as the spies were being rounded up, a senior man in Unit 8200, the section of Israeli military intelligence tasked with eavesdropping on Israel's enemies, shot himself in his office. Colleagues blamed "unrequited love".

Senegal's politics

### Statuesque or grotesque?

An outsize statue symbolises the defects of the president and his family

IT IS either a glorious tribute to the African Renaissance, as the government proclaims, or an overblown monument to the outrageous vanity of President Abdoulave Wade, as many Senegalese believe. Either way, at least the vast statue that now dominates the skyline of the Senegalese capital of Dakar leaves no one indifferent. At 50 metres tall, a shade more than New York's Statue of Liberty, it is designed to provoke.

To Mr Wade and his supporters the statue's bronze rendering of a nuclear family represents Africa rising from centuries of "ignorance, intolerance and racism". Senegal's selflessness in giving physical expression to this grand theme is meant to reflect the country's exalted standing on the continent. After all, it is the leader of Francophone Africa-at least since Côte d'Ivoire imploded-and is Africa's only successful and stable Muslim democracy. The backers of the statue, which is to open officially in April, say it will become one of the continent's top tourist sites.

But critics say the "Monument of the African Renaissance", as the behemoth is called, sums up all that has gone wrong with Mr Wade, once a popular leader who ended decades of socialist rule by winning the general election of 2000. A particular butt of criticism is the statue's cost, said to be about \$27m, in a country where millions live in poverty and thousands are still homeless as a result of last year's floods. In many Senegalese eyes, the statue shows how Mr Wade has forgotten the priorities of ordinary Senegalese.

And then there is the sex. The skimpy bits of cloth on the statue's man, woman and child leave little to the imagination. Ms Renaissance, in particular, pouts and thrusts as if she were posing for the cover of Playboy magazine. In a majority-Muslim country that is deeply pious, though not at all fundamentalist, the figures' sensuousness has offended many. Some imams call the statue "idolatrous" and "unIslamic". Mr Wade attempted to fend off this gibe by comparing it to images of Jesus in churches. But that merely offended the country's small but important Catholic minority. Once again, say his critics, the 83year-old Mr Wade showed he had lost his

But the president has probably been damaged most of all by his demand that 35% of the proceeds from visitors viewing the statue should go in perpetuity to his own foundation, to be run by his daughter.



I'm too sexy for my shirt

Mr Wade argues that this is a fair reward for the extraordinary creative energy he has expended on the project (which was designed by North Koreans), though it has been financed from public funds. An impression that the president is exploiting the statue for family gain comes on top of a long-running controversy over his 41-yearold son, Karim. He has been appointed the most powerful minister in the government, despite his lack of ministerial experience and his heavy defeat at the polls when he ran for mayor of Dakar a year ago.

Opposition politicians such as Abdoulaye Bathily, leader of the Democratic League party, allege that these are worrying signs that Senegal is turning into a "family-run patrimonial state". Concern is growing, at home and among Senegal's Western allies, that Mr Wade has become increasingly autocratic. Corruption has risen. The government has become increasingly intolerant of opposition.

With a thumping majority in the national assembly, partly because opposition parties boycotted the last election, Mr Wade has been able to do almost as he fancies; MPs, says Mr Bathily have "become stooges for his personal ambitions". Mr >> • Wade says that he wants to run for president again in 2012, when he will be 86. Some question whether the constitution allows him to seek a third term but it has been changed so often by his tame legislators that he probably can and will do so.

That would further entrench the Wade damily. And that, says the opposition, nomic stability, Much depends on whether the fractious opposition can unite to determine the fraction of the fract

#### South Africa's economy

## Steady as she goes

JOHANNESBURG

A budget that gives little to the left

EET-WING trade-union allies of PresisdentJacob Zuma have reseted with fury to the business/friendly budget, unveiled on February virb, threatening to call a general strike in the second half of the year. The first of Mr Zuma's tern month old government, the budget spurned left-wing calls for tax increases, nationalisation of the mines and dropping inflation-targeting by the central bank. Instead, the finance minister, Pravin Gordhan, is pursuing broadly the same prudent macroeconomic policies that prevailed under Thabo Meks's presidency from 1999 to 2008.

Mr Zuma has been accused of weak leadership, particularly since his dreary state-of-the-nation speech earlier this month. But he has again shown—this time via Mr Gordhan—that he is not beholden to his noisy allies on the left who helped catapult him to power.

Mr Gordhan, who did a good job runing South Africa's tax service, had the
misfortune to take over the finance ministry from the much-lauded Tevor Manuel
just as the country was slipping into its first
recession for 17 years. After growing by
nearly 5% a year from 2005 to 2008, the
economy shrank by 1.8% last year, shedding nearly 900,000 jobs. The official rate
of unemployment, including those too discouraged to go on looking for work, now
stands at 4%.

Yet the worst may be over. Figures out this week show that the economy grew at an unexpectedly fast annual rate of 3.2% in the last quarter of 2009, after barely grow-

ing in the third quarter and shrinking in each of the three previous ones. Mr Gordhan has based his budget on a fairly cautious growth forecast of 2,3% this year rising to 3,2% next year and 3,6% in 2022. That is in line with other forecasts, but it is not nearly fast enough for the government to achieve its goal of cutting unemployment by half by 2043.

Hence the anxious calls from the main tade-union federation and others on the left for inflation-targeting to be dropped in flavour of a policy focused on job creation and faster growth. But Mr Gordhan argues that last year's inflation rate of 7%, still higher than in most of its trading partners, is making South Africa less competitive. Exports represented 35% of GDP in 2008. He has asked the central bank to continue with an inflation target of 3-6%. He expects inflation this year to average around 6.%.

Hitting that target will be helped by this week's rejection of an application by Eskom, the state-owned power company, for a 35% rise in tariffs in each of the next three years; it had originally asked for 45%. It says it needs the money to pay for an expansion that will cost 35% billion rand (\$50 billion.) But after both business and labour complained, the national energy regulators says it will let £skom raise its prices by 25% this war and 26% in each of the next two.

Mr Gordhan did hrow a few crumbs to he left. Despite signs of recover, he says he will keep his stimulus package going, by pouring 546 billion and into infrastructure projects, including Eskons, in the next three years. The government will also honour its election piedge to extend childsupport grants to children up to the age of \$4, instead of justs. But that will hardly satisfy the trade unions or the increasingly restive noor in the squalld townships.



Gordhan won't slip on their skins

# Somalia's civil war Jihadists on the

WATEGET

march

The strongest Islamist militia is now formally linked to al-Qaeda

THE war in Somalia between the Islamist milities known as the Shabab and the Western-backed supposedly "transitional" government headed by Shafif Ahmed, himself an Islamist who promotes sharia law, is getting even bloodler. The UN says that ferocious fighting in the capital, Mogadishu, has caused at least Soor residents to flee this month, to add to the 15m somalis already displaced, out of a population that once exceeded 8m. Government forces, which control a shrinking slice of the capital, are still on the defenment forces, which control as resamy; it is hard to say exactly what is going on from day to day Chaos and terror prevail.

For instance, when three Shabab fighters were found dead this week in Mogadishu's Bakara market, each shot in the head, it was unclear who had killed them. Some said government forces. Others blamed Ethiopian spies. Or was it Hizbul Islam, a radical Islamist outfit that has fallen out with the Shabab' Or perhaps the Shabab itself was dealing with turncoats.

President Ahmed sleeps in a presidental palace guarded by African Union (AU) peacekeepers from Uganda and Burundi. There are frequent attempts to kill him. Several of his ministers have been assassinated. The weapons, training and cash given to his unelected administration by the American and European governments are inadequate. Little of the promised \$250m in aid has been disbursed.

Mr Ahmed claims to have 1,000 troops under arms but that is probably an exaggeration. So far they have failed to fend off the smaller Shabab (meaning Youth), which continues to control most of south and central Somalia. A new agreement between the government and al-Sunnah, a moderate Ethiopian-backed militia which espouses a Sufi doctrine, may stall the northward march of the Shabab. But al-Sunnah's price of five cabinet posts as well as sests in Somalia's defunct parliament may weaken what is already a pathetically feeble government.

The Shabab is tightening its grip in the areas it controls, as its opponents dither. It has become more radical, as moderates in its ranks have been eliminated. In January it openly declared its allegiance to al-Qaeda. As a result, more foreign fighters are drifting into the country. Fears are growing that Shabab suicide-bombers may hit neighbouring Ethiopia and Kenya. "The soldiers of Allah are now prepared to by "The soldiers of Allah are now prepared to by

• launch attacks to eliminate the enemy from the country," raged a Shabab leader in Mogadishu earlier this month, to a roar of approval from the crowd. The enemy indudes the 4,000-odd Au peacekeepers who are meant to stop the government from being driven into the sea.

As usual, civilians are bearing the brunt of the misery. All sides have killed them with impunity. The International Committee of the Red Cross says its two hospitals in Mogadishu have treated 1,500 war wounded this year. Few children go to school. Infant mortality rates are among the highest in the world. Food is expensive and scarce. Rains have failed again in central Somalia. Cattle and camels are dying or having to be slaughtered. Shabab commanders in the south refuse to work with the UN'S World Food Programme to distribute food aid unless the werp buys some grain from Somali farmers and ensures that none of the food handed out is American. Some UN officials would be willing to bolige. The Americans, in any case, say their shipments of food should stop until it can be guaranted that none of it reaches the Shabab. As a result, everyone suffers.

#### Niger's coup

# It seems popular, so far

NIAMEY

The African Union tut-tuts but the people appear to welcome a coup

Whiten soldiers seized power last week in Niger, thousands took to the streets of Niamey, the dusty capital, to celebrate. The new rulers, who kidnapped President Mamadou Tandja on February 18th, say they simply want to ous a tyrant and hold elections. Many of the desert state's 15m people seem to believe them.

Mr Tandja, aged rr. had been growing ever more authoritarian as the end of his tenure approached last year. He changed the constitution to junk term limits and pushed elections back to 2022. He also dissolved parliament and tightened his grip on the press. Local human-rights campaigners say the army has indeed halted a worrying turn of events. The United Nations says Niger is the world's least developed country.

Correction: Due to an editing error in our article last week on Kenya ("The politicians just don't seem to get it"), we said that Najib Balala, the minister of tourism, was a former mayor of Nairobi. He was actually a former mayor of Mombasa. Sorry.

Yet to the African Union (AU), a coup is still a coup. The body is trying to stop at trend that still blights the continent. It has suspended Niger, saying it may impose sanctions on junta members if they prove reluctant to cede power. Last year the AU threw out Madagascar after Andry Rajoelina, a former disc jockey and populist mayor of the capital, seized power, and has vowed to impose sanctions if he fails to implement a power sharing deal by March 16th. Guinea and Mauritania were also suspended after coups in 2008.

In any case, suspension and sanctions by the AU may hurt Niger's new leaders less than most. The biggest investment in the country is from farther affeld. Since winning a contract last year, France has spent \$1.5 billion on the world's secondalargest uranium mine. And in 2008 China signed a deal worth \$5 billion to pump oil. France has made mildly rude noises about the coup but no more. China, it seems, does not care about democracy in Africa.

Nigeria's president

#### A sudden return

LAGOS

There's still a vacuum

INTHE early hours of February 24th Umaru Yar'Adua, Nigeria's ailing and long-absent president, finally came home. After three months in a clinic in Saudi Arabia, the saga over who is in charge of Africa's most populous country is bound to resume.

The matter seemed to have been solved just two weeks ago. Goodluck Jonathan, the vice-president, took over the top job on February 9th after the prolonged power vacuum had seen government business slow down, investors grow querulous and militants in the oil-rich Niger Delta threaten to resume their rebellion.

But, suspiciously soon after Mr Jonathan took up the reins of office as a carctaker, the president is back. Mr Yar'Adua's spokesman said he would not return to work straightaway and that Mr Jonathan would stay in charge while he recuperates. No timetable was given. All that is certain is that the unexpected homecoming adds to the uncertainty. Mr Jonathan cannot make any long-term plans for his time in office, as his stint could end at any minute.

Some people in Abuja, the capital, say the president's return is more about undermining the handsver than a sign of improving health. Since taking the helm, Mr Jonathan has seemed fairly active, demoting cabinet ministers loyal to Mr Yar'Adua and trying to revive a peace process with the Delta militants.

But he may now have to tread more acrefully. In any event, political jockeying is under way ahead of next year's elections. Few think Mr Yar'Adua well enough to run for a second term, but few think Mr Jonathan has enough support to run for a first.

Moreover, despite the AU's fierce condemnation of Niger's coup, it has done little to dampen the desire of many African presidents to extend or abolish term limits. which led to Mr Tandja's fall in the first place. Uganda's Yoweri Museveni did away with them in 2005, Algeria's Abdelaziz Bouteflika did the same in 2008. So have the presidents of Chad and Cameroon. "When you make peaceful change impossible, you make violent change inevitable," says Abdel Fatau Musah of the Economic Community of West African States, paraphrasing President Kennedy's words. ECOWAS suspended Niger in October on account of Mr Tandja's bad behaviour.



Ukraine's new president

# Yanukovich's mixed blessing

A triumphant Viktor Yanukovich is inaugurated in Kiev, but his political problems have only just begun

EVEN in Ukraine, elections can end. After two rounds of voting and weeks of legal rumbles. Viktor Yanukovich was inaugurated on February 25th as Ukraine's fourth democratically elected president. In November 2004 he tried and failed to steal the crown. Now he has played (mostly) by the rules-and won. Although Yulia Tymoshenko, his charismatic rival (and Ukraine's prime minister), refuses to recognise Mr Yanukovich's victory, she withdrew her legal appeals this week. Ukraine's highest office has thus moved from an incumbent to an opposition leader: a rare achievement in an ex-Soviet republic.

Mr Yanukovich's legitimacy is now accepted by the world's leaders, and not just by Russia's prime minister, Vladimir Putin, who rashly congratulated him on his rigged victory in 2004. This time Moscow made no such crude statements, Instead, it asserted its feelings of fraternity towards Kiev by dispatching Patriarch Kirill, head of the Russian Orthodox Church, to bless Mr Yanukovich before his inauguration. This says as much about Mr Yanukovich's piety as about Moscow's tactic of using the church to extend its influence. Rarely have the Russians used soft nower so well. Yet Mr Yanukovich, conscious of his pro-Russian image, tried to downplay the patriarch's visit, and is planning his first foreign visit to Brussels, not Moscow.

His biggest problems lie at home, where his slender victory is yet to turn into real

power. Ms Tymoshenko's legal challenge was not meant to overturn the election or trigger street protests. Her aim was to rally supporters by showing that she never gives up, to label Mr Yanukovich's victory illegitimate and to blame Ukraine's corrupt courts for "cynically refusing to establish the truth". All this was meant to chip away at Mr Yanukovich's mandate. As it is, he is the first directly elected president in Ukraine's history to win with less than 50% of the vote.

The election has affirmed Ukraine as a functioning democracy, but it has neither brought political stability nor resolved the crippling question of where power lies in a country of 46m people. Ukraine is still trapped in the constitutional compromise agreed to by the outgoing president, Viktor Yushchenko, which divides executive power between the president and a prime minister chosen by the Verkhovna Rada (parliament). This means that, despite his win, Mr Yanukovich can do little without a new parliamentary coalition.

Creating one has proved harder than he expected, not least because of conflicting interests in his own Party of Regions. After a long and expensive campaign, his backers want to turn his victory into profit and are thus reluctant to share power. Ms Tymoshenko is now calling on the Rada to hold a confidence vote in her government. Next week her nominal coalition could formally break up, but even that would not Also in this section

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resolve Mr Yanukovich's problem.

Mr Yanukovich may muster sufficient votes to oust Ms Tymoshenko as prime minister. But to form a majority coalition he needs the support of Mr Yushchenko's Our Ukraine block. Our Ukraine's deputies have their own financial and political interests-and satisfying them does not come cheap. Ms Tymoshenko is also bidding to hang on to some of the party's deputies. Despite Mr Yushchenko's spectacular defeat in the presidential election (he won just 5% of the vote in the first round), his party is now in a position to be kingmaker. In the words of Yulia Mostovaya, editor of Zerkalo Nedeli, a weekly, the losers are bargaining as if they were winners.

Despite the cynicism of Ukrainian politics, ideology plays a part in all this. Our Ukraine draws support exclusively from western Ukraine, the more nationalistic part. Its voters will see betraval in any alliance with Mr Yanukovich, who made his first victory speech in Russian, who has suggested that the Russian Black Sea fleet may stay in Sebastopol after its lease runs out in 2017, and who has offered Gazprom the lure of a joint consortium to operate Ukraine's gas pipelines. The blessing by Kirill may be the last straw.

To make an alliance more palatable, Mr Yanukovich may have to accept a compromise prime minister. One choice is Arseniy Yatseniuk, a former central banker who has served as foreign minister and speaker of the Rada. Mr Yatseniuk, who himself tried for the presidency, has proved flexible in dealing with different political forces and yet is popular with Our Ukraine's voters. He is also said to be favoured by Rinat Akhmetov, Ukraine's richest tycoon and Mr Yanukovich's sponsor.

Yet part of the new president's entourage feels this would be too much of a concession to a losing party. Mr Yanukovich >> > would prefer to see an old comrade, Nikolai Azarov, as prime minister. Mr Azarov served as Mr Yanukovich's deputy in 2006 and is loyal to him rather than to Mr Akhmetov. He is seen by some as an ideal caretaker prime minister who could bring Ukrathe's dire public finances into some sort of order, even if he may not turn out to be much of a reformer.

If Mr Yanukovich fails to build a new coalition, he will have to call a new parliamentary election. This may be the best way to break the stalemate. It would certainly be more democratic than gluing together a coalition dependent only on participants' vested interests. But it would be

risky for Mt Yanukovich, Givan his narrow win in the presidential election, there is a chance that his party would lose nore seast than it would gain in a parliamentary vote. Serbity Tyhyko, who came third in the first round of the presidential election, taking votes from both front-runners, will form a faction and have demands of his own. Unlike Mt Yatseniuk, Mr Tyhypko is seen as a potential rival to Mt Yanukovich.

The next few months may bring more clarity. But for the moment Ukraine's politics continues to be in chaos. And its politicians are too busy making deals to pay much attention to the country's economic problems—or its national interests.

kel slapped him down like an ill-mannered child. "That is certainly not the chancellor's style," said her spokeswoman. Yet colleagues who object to Mr Wester-

well'es tone find less to quarrel with on the substance. The argument follows a ruling of the constitutional court that the government's method of determining the level of Hatz IV, or long-term unemployment benefit, is unconstitutional. This has revived a debate over whether well'are beneficiaries are victims of an unjust system or exploiters of state larcesse.

By international standards, benefits are not lavish for people living alone. But they are for families with children. Market wages are often lower than long-term unemployment benefits. Unsurprisingly, only 1.4m of the 4.9m beneficiaries considered able to work do so. In his blunderbuss way. Mr Westerwelle has put his finger on a problem. It could be fixed by a statutory minimum wage (the left's preference); by toughening the work requirement (as the right suggests); or by letting low-wage earners keep more benefits (which the government may do). A more comprehensive day-care system would also help, since many beneficiaries are single mothersbut that would take time.

Mr Westerwelle may have bucked up his party's support among resentful taxpayers—the PD is creeping hack up in the polls. But his career has taken a knock. Foreign ministers are usually popular in Germany. Yet Mr Westerwelle ranks behind many cabinet colleagues, perhaps because he shows more passion for domestic polities than diplomacy. Neither of his immediate predecessors led his party. Some in the FDP grumble that Mr Westerwelle is too combative to hold both jobs. If things go badly in North Rhine-Westphalia, they may tell him to focus on diplomacy a leave the plain speaking to others.

#### Germany's fractious government

### Westerwelle's woes

BERLIN

A liberal at odds with some of his coalition partners

""
ABROAD, I'm a diplomat. At home, I still belong to the plain speakers' still belong to the plain speakers' still belong to the plain speakers' where a called this month in Die Welt. He is new to both diplomacy and government, having become foreign minister and vice-chancellor only four months ago. But he has been leader of the liberal Free Democratic Party (FDP) for almost nine years. It was the voice of a liberal fibrand that came through in his screed against the "so-cialist traits" of Germany's welfare debate.

His outburst suggests that all is not well in the TPP's coalition with the Christian Democratic Union (CDU), led by Chancelor Angela Merkel. In theory the two peries are natural partners. The conservative, largely middle-class CDU is especially strong in the Cartholic south (its sister party in Bavaria is the Christian Social Union). The TPP's free-market ideology attracts enterpreneurs and professionals. Together they form the "bourgeois camp".

Yet the partnership has been rocky. Mr. Westerwelle wants to shake things up by cutting taxes, reforming health care and letting nuclear power plants operate beyond a 202 deadline for closing them. Mrs Merkel prefers to calm things down. She made a small concession on tax cuts that most voters did not want, but has so far thwarted Mr Westerwelle's other aims.

The strife has dented the government's popularity-especially the FDP's. The party won a record 15% of the vote in September's election, but its support has since slumped. This is an ominous prelude to the government's first big electoral test on May 9th, when the CDU/FDP coalition in North Rhine-Westphalia, Germany's most popularity.

lous state, is up for re-election. Polls suggest the FD will barely dear the \$\frac{1}{2}\$ hurdle to get this charles of the legislature. The state CDU has been hit by a party-financing scandal that forced its general secretary to resign. Even if the CDU wins, it may be forced into a co-allition with the Social Democrats (spn) or allition with the Social Democrats (spn) or the Greens. In either case, Mr. Merkel's CDU/FDV tandem would lose its majority in the Bunderst, the bunder house is the Bunderst in the Bunderst, the bunder house is the Bunderst in the B

Mr Westerwelle's journalistic broadside was an attempt to remind voters that the FDP stands for something: the need to reward work rather than state-supported idleness. "Everyone worries about the beneficiaries while the people who pay for it all are ignored," he thundered. Mrs Mer-



A plain speaker, not a diplomat

#### Latvia and Greece

### Baltic thaw, Aegean freeze

Latvia's economic free fall has halted, and it may now do better than Greece

DOOM-MONGERS are licking their said that a Latvian devaluation was inevitable. The struggle to save the lat's peg to the euro was bound to end in tears. And a panic in Latvia could topple the wobbly conomies of Estonia and Lithuania, which have similar exchange-rate regimes, with repercussions extending across eastern Europe and to Scandinavian banks that intrecklessly in the Baltics.

Yet despite a fall in GDP last year of 17.5%, Latvia seems to have achieved something many thought impossible: an internal devaluation. This meant regaining competitiveness not by currency deprecia-

tion but by deep cuts in wages and public spending. In a recent discussion of Greece, Jörg Asmussen, a German minister, praised Latvia for its self-discipline.

Standard & Poor's, a rating agency, has raised its outlook on Latvia's debt from negative to stable (ie, it no longer expects further downgrades). The current account, in deficit to the une of 27% of por in late 2006, is in surplus. Exports are recovering. Interest rates have plunged and debt spreads over German bonds have arrowed (see chart). Fraught negotiations with the 1MF and the European Union have kept a 67.5 billion (Sto billion) bail-out on track, in return for spending cuts and tax rises worth a tenth of OPP.

At the centre of Latvia's crisis was its to control to the centre of Latvia's crisis was the went bust, Parex was a byword for high living and murky dealings. Its new American-born boss, Nils Melngalist, has refinanced its debts, divided its assets into good and bad, and aims soon to unfreeze depositors' cash. He found plenty of savings, Selling a fleet of sports cars and end-

#### Spread betting Spreads over five-year German bunds, bas



ing the use of private jets cut travel costs by 90%. Overall, he cut the bank's costs by 40% in 2009, with 30% more to come.

Even if a catastrophe has been averted for the moment, Latvia's economy remains troubled. Unemployment, at 22.8%, is the highest in the EU. Growth is unlikely to resume until late 2011. After a decade of prosperity based on a construction boom, cheap manufacturing and transit from Russia. Latvia needs new sources of income. The biggest task is to harness local brainpower. Emigration has been a safety valve for jobless Latvians, but the country loses if fraying public services, high taxes and low pay drive its more productive workers abroad. And nobody seems to be trying to stop them. Even his fans would hesitate to call the prime minister, Valdis Dombrovskis, charismatic or visionary.

Confidence in institutions is feeblesupport for the usi lower than in any other member state. Politicians are uninspiring, with most parties run by tycoons who escaped blame for economic mismanagement. A sense that the rich and powerful evade justice is pervasive. At Vincents, a Riga restaurant where dinner for two can cost \$400, the owner, Martins Ritins, says business is booming. On Valentine's Day he opened on a Sunday for the first time in years and almost every table was taken.

As politicians' credibility dwindles, Russian influence grows. A pro-Russian party won control of Riga last year. Lativa's president, Valdis Zatlers, will go to the Soviet-tinged celebrations in Moscow on May yin to mark the 65th anniversary of Victory Day. Hawks see this as a selfout. A visit to Riga by Russia's foreign minister, Sergei Larvor, in April may be a step to wards normal relations—or a sign that Russias sees Lativa as a swing state in the Baltc.

Even so, Latvia looks good when compared with Greece. It did not lie about its public finances or use accounting tricks. Strikes have been scanty. Protests are fought in the cours, not the streets. Both Greece and Latvia have had hard knot out. Ut Greeks became used to a good life that they are loth to give up. Latvians remain glad just to be on the map.

Turkey's coup plotters

# Lies and whispers

ISTANBI

More arrests stoke the battle between the army and the government

F 'GR decades Turkey's meddlesome generals inspired fear and respect. These days they rouse pity and even scorn, as scores of retired and serving officers are arrested and jailed for alleged plots to overthrow the Justice and Development (ax) party, which has ruled the country since 2002.

Nearly 50 officers were rounded up this week. Twenty, including several admirals, were charged with drawing up plans for a military coup. Other big cheeses, including former chiefs of the navy, air force and special forces, remain in detention over an operation called "Sledgehammer" that was exposed in embarrassing detail a month ago. The plan called for bombing mosques, downing Greek fighter planes and herding thousands into a stadium should they resist the army's moves. Cetin Dogan, a retired general said to have masterminded Sledgehammer, insists to prosecutors that it was no more than a "simulation exercise"-even though it foresaw the creation of a "caretaker" government with the names of real people.

Ilker Basbug, the chief of general staff, had been leaning towards compromise with the prime minister, Recep Tayyip Erdogan. But the scale of the latest arrests may wreck any such hopes. Along with the president, Abdullah Gul, the pair held emergency talks after the arrests.

For his part, Mr Erdogan is unlikely to be pleased with the latest developments. Indeed, some are talking of overzealous prosecutors and security officials with ties to powerful Islamic fraternities that are frustrated by Mr Erdogan's willingness to compromise.

Yet the chances of another coup are close to zero. Turkey is a more complex place than it was when the generals seized power in 1980. Cooler heads, General Basbug among them, know that overturning a popular government could destroy the army's popular standing.

This may explain why the battle between ax and the secular elite is shifting to the courts. The latest example is the arrest of Ilhan Chianet, a public prosecutor in the province of Erzincan, for allegad lints to an illegal ultra-nationalist gang. The pro-secular opposition claims that he was picked up because he was investigating Islamic fraternities. The country's surpress board of judges appeared to share this view when it stripped the prosecutor behind Mr Channet's arrest of his duties. This has provoked Ax cries of "a judicial coup".

Mr Erdogan is talking of judicial reforms to blunt the board's powers. But the constitutional court is ready to strike these down. The case for a new constitution, to replace the version imposed after the 1980 coup, grows ever stronger. The Dutch government falls

# Wild things

THE HAGUE The far right promises to do disturbingly well on June 9th

OVERNMENT crises in the Nether-Glands tend to be played out with little international publicity. But when the Dutch coalition cabinet fell on February 20th it was done messily and in publicand the ripples were felt as far away as Afghanistan, drawing the world's attention.

The Labour Party quit the government because it could not agree with the Christian Democrats to extend the service of 2,000 Dutch troops in Afghanistan's Uruzgan province (see page 48). In its early days in 2007 the cabinet agreed to a withdrawal in 2010. Labour insisted on sticking to this despite a written request from NATO for an extension under a changed mandate. Parliamentary debate turned rancorous, with accusations of bad faith hurled around on live television. There was more than a hint of personal irritation between Wouter Bos, the Labour leader, and Ian Peter Balkenende, the Christian Democratic prime minister.

Labour's decision was guided in part by political calculations. With its popularity plummeting, the party may have hoped that blowing up a government over the unpopular Afghan commitment would play well with voters. Its ratings duly rose this week. But polls suggest that, after a new election on June 9th, Labour may be only the fifth-biggest party in a parliament dominated by the right and the liberals.

In truth, the established parties have been struggling ever since the late Pim Fortuyn exploded on to the scene in 2002. Support for the biggest far-right party today, Geert Wilders's Freedom Party, has shot up in recent months. According to polls, if the election were held now it would be the second-largest party, just two seats short of the Christian Democrats.

Mr Wilders is best known for his virulent anti-Islamic rhetoric. But his party has been broadening its policies. Mr Wilders not only champions limits on immigration, especially from Muslim countries, but also promises to cut red tape for small businesses, reduce taxes and improve care for the elderly. He wants a halt to European Union enlargement, including a flat no to Turkish entry. He is also opposed to the Dutch deployment in Uruzgan.

Mr Wilders casts a long shadow over Dutch politics. The other parties detest him personally, but have been courting his voters. Several prominent Labour politicians have issued a call to all parties not to allow Mr Wilders to influence the next

France's Socialist Party

### Fresh troubles

PARTS A scandal in the south-west shows up the metropolitan party's weaknesses

IS detractors call him an incorrigible racist with a "dictator-like personality". One likens him to Mussolini. His supporters insist he is brave, authentic and in tune with plain-talking local attitudes. Georges Frêche, president of Languedoc-Roussillon, is an old-style Socialist baron. But his uncanny ability to offend everybody, from black footballers to Jews, has pitched him into battle against his party bosses-and reawakened anti-Parisianism on the left

Mr Frêche has a record of gaffes. Three years ago, he was expelled by the party for complaining of too many black players in France's football team. "There are nine blacks out of 11," he said. "Ordinarily, there should be three or four." He called harkis, Algerians who fought for France in the war of independence, "subhuman". Now he has said Laurent Fabius, a Socialist ex-prime minister of Jewish origin, has "not a Catholic face".

Indignation among Socialist bigwigs in Paris was instant. The party had decided not to challenge Mr Frêche's re-election bid next month. But Martine Aubry, the Socialist leader, has now declared that she will field an alternative candidate, Hélène Mandroux, mayor of Montpellier. This week she suspended 59 Socialist candidates who insist on remaining on Mr Frêche's electoral list.

Mr Frêche has mounted a creative defence. His comments about Mr Fabius, he insisted, "had no religious connotation"; the phrase was common in French. He said he was a supporter of Israel. The Socialist leadership was out to get him, he said, inspired by parisianisme and scorn for his southern accent. It had become a party of politically correct moralists, he declared, describing it as "anti-alcohol, anti-smoking, anti-racist, homosexual, black, white, yellow, red, Jewish, Muslim, Orthodox, Japanese, garden gnomes, pit bull, anti-harmful sentiment, anti-anger, anti-vulgarity, anti-everything that is not acceptable."

All this might have spelt political

trouble for Mr Frêche. Yet far from respecting the party's bid for the moral high ground, locals have swung behind him. The man who spent 27 years as mayor of Montpellier tops the polls, with 31%, according to Opinion Way. Ms Mandroux comes sixth, with just 6%. In a run-off vote, Mr Frêche should triumph.

All this confirms that Socialists struggle to combine regional power with national credibility. Local distrust of national leaders runs deep. The Frêche affair may boost Ms Aubry's standing in Paris, but not in the provinces, where local barons guide members' votes for the party's presidential nominee. This disconnect is problematic. The party is likely to sweep the regional elections next month. But it has not won a presidential contest since 1988, nor elected a national government since 1997.

The Frêche fuss also shows the potency of anti-Parisianism. Local voters may or may not take offence at Mr Frêche's remarks. But nothing infuriates them more than being told what to think by bien-pensant grandees in the capital.



Frêche preparing another gaffe

government. But this could backfire. Labour's own immigration policy is moving towards that of Mr Wilders. Calls for a cordon sanitaire may not go down well with the 10% of voters who are foreign-born.

The polls suggest that post-election coalition-building will be tricky. At present they indicate that no three parties will be able to command a majority. This points either to a large, fractious coalition or to a minority government. Neither promises stability. Many believe that Mr Wilders will call the shots even if his party is excluded from the cabinet.

The local elections on March 3rd will give a first hint of the parties' strengths, Mr Wilders's party is running only in two municipalities, partly because of a lack of experienced candidates. But that may not stop it doing well in June.

# Charlemagne | Europe's bear problem

The trouble with the European Union's attempts to woo Russia



ASK some west Europeans why they disliked George Bush's America, and you will receive complaints about values and talk of American militarism and nationalism. You may hear Mr Bush accused of calling the European Union an ally but working to divide the block into friends and foes. Or you may get grumbles about anti-terrorist work undermining the rule of law. Footdragging on climate change might come up, or the power of Big Oil. So might social values: the religiosity of the Bushles, even their hostility to gay rights or their machol love of hunting.

Yet here is an odd thing, Those same "un-European" values can he observed in Valdimir Futir's Russia, but don on ctause similar offence, at least in the chancelleries of western Europe. The EU leaders who clashed most with MF Bush swooned over MF Putin. Germany's Gerhard Schröder described the Russian as a "llaw-less democrat". France's Jaques Chirac called MF Putin a personal friend. (To be fair, MF Bush himself started it all when he famously looked into MF Putin's eyes in Ljubljana in 2001)

Mr Bush is long gone. Mr Putin is Russiar's prime minister alongside President Dmitty Medvede But the us utill hopes that Russia is ready for "partnership". Charlemagne has just spent time in Moscow talling to political and business bigwigs. At Such gatherings, topical pieties are observed. The fashion now is to fret about "global" governance, covering everything from protectionism to migration to climate change. In Russia the talk was of Russia how it can get richer, how it can keep pumping oil and gas, how it can modernise its economy. A timid question about climate change prompted dersion and talk of sub-zero temperatures outside. Emerging into the chilly streets, Charlemagne was hooted by hulking four-wheel drives. It felt like Texas, with snow.

What explains Europe's double standards over America and Russia? Partly, it is hypocris; The Eu is Russia's biggest trade partner; in 2008, Russia was the Eu's second market for exports. Partly, it is Russia's skill at playing on divisions within the block. But some of Europe's tolerance of Russia goes beyond this. Despite many disappointments and shocks, such as the 2008 war with Georgia, plenty of Eu types still dream of transforming Russia. They once talked of Russia as a "strategic partner". The new buzz phrase is a "modernisation partnership". This vague idea is the Eu's response to encouraging noises from Mr. Medveder

about his country's need for modernisation, including greater respect for the rule of law. The "underlying assumption", writes Katinka Barysch in a new paper for the Centre for European Reform, a London-based think-tank, is that EU capital, technology and training might make Russia "more Western-oriented, open and easier to deal with."

Alas, everyone is talking at cross purposes. The ru hopes that modernisation means aligning Bussia with the union's values and norms. For Russian officials, says Dmitri Trenin of the Carnegie Moscow Centre, modernisation means "Russia using its resources to buy assets in Europe, and Europe supplying Russia with technology." In ru circles, there is much cheery talk of soft power and "people to people contacts", including Russian billionaires heading to western Europe to buy homes, educate children, consult doctors or hide their loot. This may be wishful thinking, Enjoying a place's pleasures is not the same as embracing its values. Rich men rarely seek lessons in ethics from their butlers or their bankers.

Vladimir Chizhov, Russia's clever and acerbic ambassador to the EU, wonders what European values really are. He offers an answer respect for human dignity in a multi-confessional, multicultural society. Russia has operated such a society "for 1,000 years", he asserts. It may have things to learn from the EU, he says, but he rejects any idea that "the European Union equals Europe".

Where does the EU have leverage? Funnily enough, the answer lies in those same pesky aulues. Start with intra EU solidarity, Poland and Russia get on better now than for a long time, with Russia dropping a ban on Polish meat imports and Poland unblocking EU Russia talks on co-operation. Mr Putin has invited his Polish counterpart, Donald Tusk, to cremonies to mark the 70th anniversary of the Katyn massacre, when the Soviets murdered over 20,000 Polish officers. Relations changed at an EU-Russia summit in May 2007, says a senior European politician. Russia was surprised when the EU, led by Germany's Angela Merkel, stood by Poland over the meat ban. "Russia realised it had to deal with Poland and repair relations," he says.

#### There goes the neighbourhood

Then there is the area where the EU really does enjoy soft power, its neighbourhood. A decade ago, Russia took a relaxed view of EU enlargement, even to former Warsaw Pact countries, says Mr Trenin. The mantre was "anything but NATO"; and hostility to NATO was about America, not about Europe.

Nowadays, diplomast detect a chill in Russian attitudes to EU projects in its backyard, especially the "eastern partnership" with Armenia. Azerbaijan, Belarus, Georgia, Moldova and Ukraine. This impression is bolstered by Alexander Grushko, a deput yforeign minister. Russia wants a say before any "rapprochement" between the EV and countries like Ukraine, he says. Projects such as visa liberalisation or energy links must not make former Sovietrepublics "choose" between the EV and Russia. "The EV should not move ahead with projects in the eastern partnership that are not also the fruit of Russia-ev dialogue."

Europe should take such hostility as a compliment. Bringing ex-Soviet republics into a rules-based system would challegge the bleakness of Putinism. It will be hard. But Europe's values are a source of its strengths. To play to them. Europe must be clearereyed about who shares its values—and who does not.

Economist.com/blogs/charlemagne

### Simple Truth: Investment costs count

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Britain's prime minister

# Hero, villain or victim of the global age?

#### Gordon Brown's pitch for a fourth Labour term—and his critique of the Tories

IT HAS been a topsy-turvy few weeks for Gordon Brown. He gave what for him was an unprecedentedly personal television interview, in which he discussed his upbringing, his love life and the death of his baby daughter: the appearance was "very difficult", the prime minister told The Economist this week (though presumably it was also his choice). More people seem to have found the intimate details endearing than excruciating, because Labour's poll rating has risen, shrinking the lead enjoyed by the Conservatives to six or seven points (see next story); a hung parliament has begun to seem a likely outcome of the general election that is due by June 3rd. But the fightback was threatened by renewed allegations in the Observer newspaper about Mr Brown's grumps and rages-a reprise of the insinuations about his temperament that have been made periodically for over a decade.

The sorts of things that the Observer purported to chronicle-berating aides, punching car headrests and grabbing lapels—were scarcely revelations. Nevertheless, the controversial intervention of the head of an anti-bullying charity (who claimed that several staff in the prime min-

ister's office had called its helpline), ham fised attempts by Labour heavies to stifle the story and opposition leaders' opportunistic calls for an inquiry kept the accustons in the headlines. A remark by Alistair Darling, the chancellor of the exchequer, about "the forces of hell" unleashed by Number 10's spin machine (and others), after some too frank comments he made about the state of the economy in 2008, reinforced the unpleasant impression.

Mr Brown fiatly denies the Observer's main allegation, which is that Sir Gus O'Donnell, the cabinet secretary, warned him about his treatment of Number 10 staff. This, Mr Brown says, is "completely wrong": "there's been no private message to me firom Sir Gus!". He subsequently also denied any role in smearing Mr Darling. The fartage overshadowed Mr Brown's

bid to reposition himself and his party in the run-up to the election. In effect launching the Labour Party's campaign on February 20th with the slogan "A future fair for all", MF Brown exhorted voters to "take a second look" at Labour and "a long, hard look" at the Tories. In his interview with The Economist he sought to explain Brit The Economist he sought to explain Brit

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ain's recent economic travails, and to pitch for another term in office, by referring to a characteristic theme: the challenges and opportunities of globalisation. He describes the financial crunch of

2008-09 as the "first crisis of globalisation". The recession, and concomitant deterioration of the public finances, Mr Brown says, were a "one off hir" felt by most other big rich countries too. Despite the the depth and severity of Britain's downturn-it was the last of the big economies to to emerge from recession, and that only feeemenge from recession, and that only feeduction plan, he claims, is "the most ambitious of any of the 67 countries". He bridles at the notion that there have been any contradictions in his own pronouncecontradictions in his own pronounce-

about the urgency or scale of future spending cuts, on the contrary, his remarks have demonstrated "absolute consistency".

Labour has been in power for 13 years. There are other reasons, besides the deficit and the recession, to doubt whether its re-

ments, or those of his cabinet colleagues,

For a transcript of the interview, see Economist.com/browninterview • cord in office has been sufficiently stellar to warrant a fourth term. To rebut the idea that his government is superannuated, Mr Brown again invokes his globallsation motif. The coming contest at the polls, he says, will be "the first election of the global age"—the implication being that Britain's circumstances have changed so dramatically that the political lock has been reset.

That sounds like a stretch. But the case he offers against David Cameron's Tories is both more cogent and ferocious.

#### Some of my best friends aren't Tories

The choice the electorate faces has recently seemed less start han it once appeared. The Tories have made it clear that the spending cuts they would implement in 2010-11, should they win, will be modest rather than "swingeing". Labour, for its part, has been talking tougher, if still vaguley, about the cuts it would implement thereafter. Combine that seeming convergence in fiscal intent with existing similarities elsewhere—in health and welfare police, for example—and the overlap between the parties begins to look greater than the different and the different metallic than the different than the different the parties begins to look greater than the different seems.

The prime minister is having none of it: "I think it's a big choice for 2010 and a big choice for the future." He reels off a litany of big judgments that he thinks the Tories have got wrong (such as opposing the nationalisation of Northern Rock in 2008 and opposing the government's fiscal stimulus). He points to the seeming incoherence of their approach to the public finances, in which promises of a tax break for marriage and a higher threshold for inheritance tax jostle with a putatively severe fiscal squeeze. "None of it adds up." he says. As for any broader similarities between Labour's platform and that of the Tories, "If there was any content to [theirs], it would be interesting." Though the enmity between Mr Brown and Mr Cameron often appears intense, the prime minister denies feeling any particular hostility: he has "no personal animosity towards anyone in politics." But his attack on the "recklessness" of Conservative economic policy is vitriolic. "What is their economic policy? Nobody actually knows."

Mr Brown vigorously rejects one criticism that, these days, is sometimes aimed at New Labour, the pro-market socialdemocratic force of which, along with Tony Blair, his predecessor as prime minister, and Lord Mandelson, now the business secretary, he was a progenitor: that it was a fair-weather creed. The Labour government, some say, was able to keep direct taxes relatively low while redistributing wealth and spending lavishly on public services (what Mr Brown calls "catch-up investment") only because the economic circumstances were unusually benign, Mr Brown argues that the causality worked the other way round: that New Labour

created the benign circumstances, which made the public expenditure possible. He contrasts the intellectual depth of the New Labour project with the vacuity of Mr. Cameron's decontaminated Conservation. New Labour was created "from first principles", he says, whereas "there is no evidence of this 'reconstructed' Toryl party other than in posters, slogans and public relations."

Some of these claims resonate, as the narrowing opinion polls may reflect. Yet there is an unresolved tension in Labour's criticism of the Torice which the prime minister's remarks exemplify. Mr Cameron is said to be a flighty, unprincipled filibbert expensive the sales outprosed to be the unreconstructed right-wing leader of a party that has long favoured the privileged. Only one (at most) of these descriptions can be valled.

The prime minister is often accused of being an uninspiring speaker. Give him an inch, and he will indeed take an hour to discuss the crucial but unglamorous restructuring of global financial institutions and liquidity ratios, or so it can seem. But. with his ally Lord Mandelson-functioning these days as a sort of Lord Protector-Mr Brown has plainly thought hard about future sources of growth for the British economy. He talks enthusiastically about the skills and digitisation, the modern industrial policy, needed to "equip Britain for the global age", (The Tories, he laments, have no "policy coherence or even philosophical explanation".) The question is whether many people in Britain are listening; even before the bullying furore, Mr Brown's personal ratings were lower than his party's, and, in electoral terms, he remains more a liability than an asset.

Nobody, of course, can know the outcome of the election. But despite Labour's miniature rally, it remains highly unlikely that Mr Brown will hang on in Downing Street. As an historian, how does he think those of the future will regard his time in office thus far? As "the first period of a genuinely elobal ace".

The Conservatives' mini-malaise

### **Tory blues**

#### The opposition is failing to capitalise on the government's troubles

DaVID CAMERON is fearsome as an underdog, in 2007 he staved off a snap general election he was likely to lose with an impressive speech and a popular pledge to exempt all but the richest households from inheritance tax. His leadership of the Conservative Party owes much to his resilience in the summer of 2005, when his candidacy for the job seemed presumptious and doomed to fail.

He is nothing like as unfancied for the coming general election, which is due by June 3rd. But his party's poll lead over Labour has fallen from comfortable double digits last year to as little as six percentage points now. Thanks to the vagaries of the electoral system, that kind of margin may not be enough to secure an overall majority in Parliament.

Iny in raniament. Unforced errors have played a part. The Conservatives recently misused statistics on crime and teenage pregnancy, and Mr Cameron sounded confused in an interview last month about his policy on the status of marriage in the tax system. A poster campaign launched in January flopped when it was suggested that Mr Cameron's immeabe had been airbrushed.

But the Tory malaise, agree those at the very top of the party, is the product of strategic confusion as well as tactical missteps. At a time when neither economists



What's it all about, Dave?

nor voters agree whether the fiscal crisis should be tackled with quick public-spending cuts or continued largesse to bolster growth, the best option for a political party may be to choose one view and stick to it. The Tories conveyed such certainty at their party conference last autumn, when George Osborne, the shadow chancellor, yet

That the Tories have four rather different strategic voices has, until now, given it an edge over Labour's reliance on Mr Brown (and, though his influence waxes and wanes, Lord Mandelson, the business secretary). Mr Cameron enables the party to take conservative positions on social and cultural issues without sounding ensorious. Mr Osborne keeps colleagues focused on the fiscal deficit. Stever Hillon the party's strategist) is an evangelist for big ideas, while Andy Coulson (the director of communications) makes the case for a punchy, "pub-ready" approach. But this diversity of styles many now be muddying

the Tory message.

At least political strategy is something the Conservatives can work on; a two-hour meeting of the shadow cabinet on February 23rd was not the only summit of senior Tories in recent days. Another probable cause of the narrowing polls is the recovering economy, which is beyond that the o.3% ODF growth figures for the last durater of 2009, amounced in January, would disappoint voters. But most folk are barely aware of such statistics, and economic optimism has gone up recently, according to a polb y pisos Nost.

Another poll, by ICM, shows that Labour is as trusted as the Torles these days on managing the economic crisis; they trailed by nine points last summer. Mr Brown has long believed that only when through to ordinary voters. His favourite trope of recent years—that he helped to trope for freent years—that he helped to mitigate a recession that would have overwhelmed others—certainly seems to be falling on recentive ears.

Still, there are reasons for the Torfes to remain confident. For one, predictions of a hung parliament assume an identical electroal swing towards the Conservatives across all constituencies. But the party is targeting floating voters in marginal constituencies, and thinsis timil do especially well in them. Moreover, the campaign will probably remind voters that their choice is ultimately between Mr Cameron and Mr Brown. Even with the narrowing of the gap in their poll ratings in recent months, the public much prefers the Tory leader.

Publish, perish, protest

Bad news for dodgy journalism-and for libel tourists

LIBEL law in England is too expensive and restricts free speech. But journalistic dirty tricks are a disgrace and self-regulation of the media isn't working properly. So the rules need lots of tweaks and a couple of big changes. Those are the conclusions of a much-awaited parliamentary committee report on the British press.

It makes uncomfortable reading for many. But the sharpest criticism was reserved for the News of the World, a tabloid that is Britain's best-selling Sunday newspaper; its owner, Rupert Mundoch's News International; and its practice of stealing messages from the voice mailboxes of prominent people, including members of the royal family. A reporter, Clive Goodman, was jailed for unmonths for the offence, later receiving a generous pay-off from his erstwhile employer for "unfairt dismissal".

The report says the number of phones hacked must have been far bigger than the handful admitted by the company, and calls it "inconceivable" that nobody else knew what was going on. It criticises the "collective amnesia" of the company's witnesses and their "deliberate obfuscation" (some refused to give evidence; others said things that the MPS implied were untrue). But the report makes only indirect criticism of Andy Coulson, then the paper's editor and now a close adviser to the Conservative leader, David Cameron. In response. News International rejected the allegations, accused the MPS of bias and said they had produced nothing new. Calls for a further inquiry are growing.

The report gives other journalistic misconduct a savaging too, especially the "abysmal" standards of reporting in the frenzy surrounding Kate and Gerry McCann, the parents of a British child who went missing in Portugal in 2007. (The McCanns later won hely libel ddamages from newspapers that wrongly blamed them for abducting their own daughter.) The Mrs also note that the McCanns were failed by the Press Complaints Commission, a self-regulatory body which is meant to deal with such conduct

The committee's original aim was to focuson media misbehaviour. But its investigation has ranged more widely. The report has plenty of comfort for more serious-minded journalists, as well as for the campaigning groups, scientists and others who worry about the chilling effect of libel law on press freedom. In English libel law

(Scotland's is different), the fact that the public has an interest in knowing about something offers only a limited defence against a charge of libel. (This is not unlike the rest of Europe, but it is shockingly different for Americans used to the First Amendment's protection of free speech.) When sued, journalists usually have to prove that what they wrote was right, fair or at least conscientiously reported. That can be costly (even a preliminary defence can easily exceed fig.0,000). Foreigners may sue other foreigners, as long as they can show that their reputation was damaged in England.

Many lawyers and judges have dismissed media campaigns for changes in the law as self-interested. The committee rejects sweeping proposals for reform, such as statutory caps on the size of libel damages. But it does suggest that the Ministry of Justice, which is examining the libel law, make some important changes.

One is reversing the burden of proof for corporate claimants: if they want to sue for libel, they would have to show that the published material actually damaged their business. That could help people such as a Siemon Singh, a science wither facing a law-suit from the chiropractors' trade body for calling their treatments "bogus". The MPS also want to discourage "libel tourism" by requiring a claimant who is not based in 18 Britain to produce a very solid argument as to why the case needs to be brought there.

As for the cost of libel actions, which can be ruinous to all but the biggest defendants, the MPs have few specific ideas, though they appeal to lawyers' sense of responsibility. That is about as realistic as urging tabloid journalists to act ethically,

Internship: The Britain section will soon be choosing an intern to work for several months this summer. Applicants should send a letter and an article of about 600 words that they think would be suitable for publication. A small stipend will be paid. Applications must reach patsydryden@economist.com by March 19th.

# Bagehot | All too human

How much does a prime minister's character matter?



ANINTERESTING little volume of essays by Clement Attlee, Iabour's sainted post-war prime minister, was published last
year. The book is called "Attlee's Great Contemporaties", with
the subtile "The Politics of Character". "If a political nd cesn't
display courage," Attlee argues, "the chances are that he will never become the leader, or that if he does, he won't hast very long."
Neither will he endure "If he cannot trust". No one can lead who
"is fartiad of losing his job." The collection is edited by Frank Field to
saintly Labour MP. In his introduction, MF Field writes that, for
society he wanted to create. It is perhaps not a coincidence that
MF Field is also a fierce critic of Gordon Brown.

The book, and the Aristotelian view of leadership it advances—that a leader is the sum of everything he does—came to mind when the latest allegations about Mr Brown's behaviour were aired in the Observer. He stands accused (again) of insulting and even mamhandling staff, and of abusing assorted inanimate objects. A remark form Alistart Darling, the chancellor of the exchequer, about the "forces of hell" unleashed against him by Mr Brown's spin machine in 2008, reinforced the impression of darkness and dysfunction in Number 10. "The intriguers" Attlee wrote perceptively, "are usually the victims of intrigue."

Does all this add up to proof, as some commentators maintain, that Mr Brown has a suspect character, or at least the wrong sort for a prime minister? Mr Brown himself seems to subscribe to the Attlee/Field view of leadership, incessantly advertising the morality imbued by his upbringing, and recently declaring that his life was an "open book". But must character traits and defects really define—or disable—a prime minister?

Mr Brown does seem to be one of those people who avow love for humanity in general, but can seem less enamoured of individual human beings. He does indeed have a bad temper and tantrums, no one close to him seriously pretends otherwise feven if some also say he and Downing Street are happier now than for much of his ill-starred premiership). "Awkward", "volatile" and "irruptive" are among the adjectives applied to him—by his allies.

But pondering his office, and its previous incumbents, it is plain that some characteristics that might be off-putting in a friend can prove necessary or even virtuous in Downing Street. Tony Blair, for instance, was impressively self-controlled: in a telling passage in the book by Jonathan Powell about the Northern Ireland peace process, Mr Blair reprimands his aide for losing his rag in a meeting, explaining that he himself only does so for calculated reasons. But Mr Blair also exhibited qualities—the ruthlessness to sack his friends (sometimes twice): the coldness to make life and (frequently) death decisions and evince no doubt that in other contexts might be unappealing.

Other prominent examples confirm that the character of politicians cannot always be appraised using everyday criteria; and that niceness and moral recitude are not, in fact, make-or-break qualifications for prime ministers. There have been other irascible ones, boozers (Churchill was both), womanisers (Lloyd George) and tyrants (even if Margaret Thatcher was kind to secretaries and drivers). There is a view among some psychologists that aspiring to lead is itself a sort of personality disorder, it is not surprising that those afflicted by it display other symptoms too.

In Mr Brown's case, it isn't only his temper. He is dangerously workabile; sometimes indecisive, and he struggles to delegate. A lifetime in politics has enthralled him to its machinations and short-termism-though he also possesses an almost superhuman resilience, which has helped him to withstand the serial meldowns and cupps of the past few years. These traits may indeed help to explain some of his government's failings, if they mean he intimidates his staff and wastes his own energy. Perhaps his alleged propensity to throw mobile phones and punch car seats is somehow concreted to Britain's gargantuan deficit and the severe recession he has presided over.

Or perhaps it isn't. History suggests that sometimes bad manners and habits are destructive; sometimes they are not. And ultimately it is the facts of the deficit and recession that matter, not rumours of hurled phones and stapled hands, etc; it is the record, not the irruptions. If Mr Brown's record were better, people would probably be less interested in his mood swings.

#### God save the prime minister

Oddly, this brounhaha could redound to Mr Brown's advantage. And not only because of the distracting intervention of the head of an anti-bullying charity: she claimed that Downing Street staff had called its helpline, but was then mercilesty discredited herself, undermining the Observer by association. Mr Brown often comes across as an unsympatheit automator; tales of his fraitiets may help to humanise him (no one's perfect, and all that). But if there is a serious revealation here; it has probably not been about Mr Brown's character, but rather the crucifying character of his job and the inefficiency of the government machinery.

"Life is more complicated and government more complex," Attlee observed in 1960, "the Welfare State has required additional laws and regulations." He didn't know the half of it. Being prime minister today involves more responsibility, over a more centralised government, exercised in a more punishing media culture and more adversarial political one, than was imaginable even in the 1980s. A prime minister must discharge these responsibilities from the endearing but hopelessly manteurish surroundings of an adapted terraced house; like other prime ministers, MF Brown has fiddled with the seating plan, but no one has yet created the modern and efficient executive that the role demands. It is enough to make anyone chuck the odd Nokia. ■

Economist.com/blogs/bagehot





Sanctions on Iran

# And the price of nuclear power?

Also in this section

68 A survey on trust

America is rallying its friends to concentrate minds in the Islamic Republic

SURELY it is clear by now, many people feel, that Iran would rather go on enriching uranium than talk to America or anyone else about its suspect nuclear activities. If efforts to tempt it round have failed, could a tight economic squeeze lead the regime to think again about the costs of its defiance?

A new sanctions resolution will soon be up for discussion at the United Nations Security Council. But suppose the UN cannot get Iran to halt its work to process uranium and plutonium-for use in as yet unbuilt civilian nuclear-power reactors, Iran says, though others suspect they are for bomb-building. In that case, a lot more governments may have to be induced to impose eve-watering economic pain so as to get the regime's attention.

Veto-wielding Russia and China have eviscerated three previous sets of UN sanctions, and gained commercially from doing so. Now Russia may be having second thoughts. A report to be discussed by the 35-nation board of the International Atomic Energy Agency (IAEA), the UN's nuclear guardian, on March 1st shows why.

Last year Iran was found building a hitherto secret uranium-enrichment plant on a military compound outside Qom. That deepened fears that it indeed had a covert military programme. In 2007 America concluded, controversially, that Iran had been developing a nuclear warhead for a missile, but had stopped in 2003. In its latest report, the IAEA talks of possible "current undisclosed activities", suggesting such work continues.

Russia had previously dismissed such evidence as unproven. But it has been galled by two Iranian actions. The Islamic Republic turned down a deal put together last year by America, Russia, France and the IARA that would have bought time for talks by taking much of Iran's low-enriched (3.5%) uranium out of the country, returning it later as higher-enriched (about 20%) rods to provide new fuel for a small Tehran-based research reactor. Then, adding injury to insult, as the lat-

est inspectors' report documents, earlier this month Iran started 20% enrichment itself, at its main plant at Natanz, rejecting calls for it to wait until inspectors were on hand and extra surveillance in place, Sufficient stocks of 20% enriched uranium would dramatically cut the time it takes to get to the 90% grade needed for a bomb.

If Russia now backs tougher Security Council sanctions, China may be reluctant to be the only permanent member of the council to block new measures. But whether the two vote yes, or merely abstain, they will work to keep UN sanctions narrowly targeted on the individuals, companies and banks most directly involved in Iran's nuclear and missile programmes.

Other measures-much harder to shrug off-could be a ban on weapons sales to Iran (previous sanctions already block it from exporting its own arms) or a bar on new investment in its oil and gas industries. But Russia now sells Iran weapons (although it has held back a delivery of advanced s-300 anti-aircraft missiles), and China's firms have snapped up energy contracts that others have been encouraged by their governments to drop. Late last year America quietly started

informal meetings with a group made up of the G7 club of rich economies plus Australia, South Korea, Saudi Arabia and the United Arab Emirates (UAE). This initiative is intended to create a fallback, should UN sanctions fail, or prove too mild.

Ideas for new measures abound at America's Treasury Department, which re->> alised the strength of financial sanctions in 2005, when it designated a Macau-based bank, Banco Delta Asia, as a money-laundering concern because of its banking services to dodgy North Korean individuals and firms and later cut it off from any dealing with American banks. That forced other banks to choose between dealing with North Korea or keeping access to the American banking system. America has pulled a similar trick with Iran. A string of Iranian banks are now barred from transferring money to or from the United States and more than 80 foreign banks have cut ties with Iran or are doing so. Last December Credit Suisse was fined \$536m for helping Iran hide financial transactions.

This forces Iranian merchants and businesses into more circuitous and thus costly ways of financing their trade. Meanwhile, America has sanctioned more than 100 people and entities for supporting Iran's nuclear and missile programmes and is encouraging other governments to follow suit, freezing bank accounts and other assets. It has designated Iran's Revolutionary Guard, increasingly seen as an economic power in the country through its ownership of everything from mines and mobile phones to construction firms and a port, as a proliferation-supporting enterprise. It has told foreigners that they could unwittingly put themselves on the wrong side of American law by dealing with Guardowned enterprises or subsidiaries.

Export credits for Iran have been rapidly drying up, including those from Germany, until very recently one of its keenest trading partners. Governments from Austria to Australia have been combing more carefully through export licences.

Other ideas being canvassed include extending the penalties now applied to banks to insurance and reinsurance companies too; Lloyd's of London recently told the Financial Times that it would cut its cover for refined petroleum shipments to Irani f America's Congress carries through its plans to enact sanctions on such trade. There could also be curbs on Iran's ships.

The more governments America can persuade to join in, the harder the pinch. The European Union, which has so far stuck closely to UN-designated sanctions (though individual members such as Britain have gone further, especially with financial measures), is reported to be considering harsh new proposals. But enlisting countries such as Saudi Arabia and the UAE would have huge symbolic and political effect-especially if it included Dubai, which normally does a roaring trade with Iran and was the hub of the illicit nuclear network of Abdul Qadeer Khan, who helped Iran and others with their secret nuclear work. It could even influence Turkey and Brazil, both of which have been reluctant to see new sanctions and have claimed to take their lead from the

(previously less critical) IAEA. Now the IAEA is changing tune, will they do so too?

Thus far Iran's leaders claim to be unmoved by sanctions threats. If anything, they say, sanctions strengthen the nation. And in truth, it is economic mismanagement by Iran's president, Mahmoud Ahmadinejad, that is doing most damage. His spendthrift policies have all but depleted the country's reserves, which ought to be brimming with past windfall profits from oll and gas. Unemployment is rife. Inflation is well into double digits, and could spike dangerously if the planned lifting of budget-crippling subsidies on fuel and other basic goods is mishandled.

Well before the protests that followed what many see as last June's stolen presidential election, Mr Ahmadinejad was under criticism both in parliament and from the bazaaris, Iran's merchant class, for needlessly provocative behaviour that

was driving up the cost of doing business and crimping Iran's trade.

Iran's economy is now more vulnerable. Oil and gas, its greatest strength, may also be a weak spot. Iran's oil and gas industries badly need foreign money and know-how. A recent report by the research centre of the Majlis, Iran's parliament, reportedly said that without substantial investment, Iran would be importing oil in 16 years at best, in eight at worst.

Some energy deals are still being done, but few are being completed. Among America's group of like-minded friends are several—Japan and South Korea in Asia and some countries in Europe—that still buy quite a lot of their oil from Iran. Would they be ready to look elsewhere instead? Would Saudi Arabia and others be prepared to keep their oil flowing if they did? If sanctions on Iran are ever to work, the time to try them is now.

#### A poll on trust

# What's good for General Motors

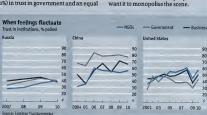
A new pattern in opinions about bureaucrats, business and charity

UNIL recently, opinions about the public and private sectors tended to move in mirror image. Some societies mistrusted the state but expected a lot from private firms. In others the state was revered and the reputation of firms was in doubt. And in countries like China where respect for the state ran deep, people were also sceptical of private efforts to do good.

Over the past year, patterns have shifted. The latest in a series of annual polls of the "informed public"—successful, educated people who follow the new—in 22 countries shows that in most, trust in government and the private sector is moving in step, either up or down. In Russia confidence on both fronts is down. In Germany the latest year showed a modest rise (from 35% to 43%) in trust in government and an equal

climb (from 33% to 39%) in the number who had high hopes of business. Britain was an outlier. There, trust in the state fell (from 41% to 35%), whereas trust in the

private sector inched up, from 45% to 47%. Laurence Evans, who oversaw the poll for Edelman, a consultancy, said it reflected "the age of sovereign risk". People doubt that firms can thrive if the state ails, and vice versa. And in most countries (including China), trust in NGOs rose, prolonging a decade-old trend. As Kerry Brown, a China-watcher, points out, that does not mean the Chinese state is losing confidence, in both senses. In some fields, such as the environment, it has ceded ground to voluntary efforts, but it retains a tight grip on sensitive areas like minority rights, Still, where the state is revered, people do not



# Joining the queue

NEW YORK

The recession has accelerated big changes for firms that help people find jobs

TN 2008 10m people came to us, and we placed 4m in jobs. In 2009 it was um, and we only placed around 3m. It's been a tough year." So says Jeff Joerres, the boss of Manpower, an employment-services firm best known for its army of temporary workers. The highest unemployment rates in decades have meant that more people than ever have turned to firms that specialise in finding people jobs. But at a time when firms are hiring far less, if at all, that can easily add up to more disappointed clients. One thing Manpower has got better at during the recession. says Mr Joerres, is figuring out quickly which job-hunters can be helped, and which to send elsewhere rather than risk leading them on.

In the final quarter of 2009 Manpower's profits were down by 62% from the same period a year earlier, on revenues that were 4% lower. Although its share price is twice what it was last March, it is still at barely half its peak. The story is much the same across the recruitment industry. On February 23rd Heidrick & Struggles, a big headhunting firm, announced that revenues had fallen by 19% in the fourth quarter, although it eked out slightly higher profits. It trimmed its team of consultants from 419 to 359 over the course of last year. Monster, an online job-listing firm, posted a loss in the fourth quarter. Its shares, though up since last March, remain two-thirds lower than in February 2007, before the deterioration of the American economy became apparent.

Even so, Sal Iannuzzi, Monster's boss, is upbeat. He, like his counterparts at other recruitment firms, is increasingly confident that unemployment in America has peaked. Moreover, his firm, like many in the industry, has made big changes to improve its prospects as the market recovers. Before the recession, Mr Iannuzzi had publicly acknowledged that neither Monster's technology nor the services it offered were up to snuff. Although it led the shift of job listings away from newspapers to the web-newspaper revenues from such listings are down by over 90% since Monster announced itself with its first Super Bowl ad in 1999-it had rested on its laurels. The recession underscored the problems, when desperate jobseekers used Monster to fire off scattergun applications, in effect Also in this section

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spamming recruiters.

Mr Jannuzzi decided to push ahead with an overhaul despite the recession, "forgoing profitability to invest in innovation". Monster has developed a search engine called 6Sense, which is designed to help recruiters screen out "aspirational applicants" (the spammers). It also allows recruiters to search for suitable candidates themselves, rather than waiting for the right person to apply. Instead of relying on telemarketing, Monster is visiting employers to show off these products.

In early February Monster announced a deal to buy HotJobs, a rival listings site, from Yahoo!. It will pay \$225m-barely half what Yahoo! paid when outbidding Monster for the firm eight years ago. The deal is expected to bring enough new customers to make Monster, which now operates in over 50 countries, the largest online database of

potential hires, ahead of its biggest rival, Careerbuilder.

These moves are intended in part to see off specialist competitors, which have grown despite the downturn by exploiting niche markets. Dice, for example, focuses on technology jobs; The Ladders lists only jobs with a sal-

seeking jobs on TheLadders pay a monthly fee of \$35, enough to deter the eager but unqualified. Hyperactive users (defined as those who apply for more than 100 jobs a day) are strongly discouraged. According to Marc Cenedella, the firm's boss, "on average, there are 21 applicants per job on TheLadders, whereas on Monster you can get a thousand people applying, which is far too much noise.'

Mr Cenedella, who blogs about recruitment, says "curation", meaning more filtering of those looking for work, is the new trend.

"The sites have evolved from online jobs boards into 'talent communities'," says Jayson Saba, a specialist in employment at Aberdeen Group, a market-research firm. In other words, recruitment

firms are hoping to capitalise on the pop- >>



lularity of social networking. Monster owns sites such as military.com and theapple.com, which allow soldiers and teachers respectively to hobnob and hunt for work. Along with rivals, it is also trying to use Facebook (with mixed results) and, above all, LinkedIn, a professional-networking site.

Reid Hoffman, the founder of LinkedIn. says its revenues from employers looking for recruits among its 60m members have risen consistently throughout the downturn. Mr Hoffman thinks his members are only just beginning to appreciate the edge the site can offer when it comes to job referrals. "When someone recommends you for a job, that counts for far more than when you apply for it yourself," he says.

"We use LinkedIn, quite frankly," says Kevin Kelly, the boss of Heidrick & Struggles, who readily concedes that the emergence of online search and networking is undermining the advantage conferred by his firm's proprietary database of contacts. In response to the gradual erosion of their main selling point, Mr Kelly and his colleagues have begun offering their services as consultants on other aspects of employment, helping firms keep their best staff and manage successions. Senior executives suffer from a high rate of attrition: 40% leave their job within 18 months. Heidrick has analysed 20,000 hirings it orchestrated to assess why some of those appointed lasted longer than others. It is incorporating its findings into its advice.

Like Heidrick, Manpower is increasingly having to compete by finding new ways to help recruiters, helping them manage high-powered but short-lived projects, for example. Companies are putting together many more ad hoc teams often connected virtually around the world, notes Mr Joerres. "Perhaps only 20% of a team will be on the full-time staff," he says, "so they need a much more on-demand talent spigot, which we can provide."

Recruiters are clearly becoming far more sophisticated, thanks to the new search tools that are available, says Aberdeen's Mr Saba: "You'd think with 10% unemployment, jobs would be filled more quickly, but the focus on sourcing the right people, screening them and so on means that the time to fill has not fallen." Mr Joerres believes that the increasing sophistication of recruiters means that firms will do less "anticipatory hiring" than in previous recoveries. Instead, firms will wait to get exactly the staff they need, when they need them

However, Heidrick's Mr Kelly thinks lots of executives who have stayed in their jobs over the past year or two despite working twice as hard for less money will grab the first opportunity to move to pastures new. The same may be true for less exalted workers, too-and could signal a better year ahead for recruitment firms.

The spread of GM crops

### Taking root

NEWYORK

The developing world embraces a controversial technology

DECADE ago, after European activists Awhipped up lots of negative coverage about the perils of toying with nature, the future of genetically modified (GM) crops seemed uncertain. The technology was adopted by farmers in the rich world outside Europe, but poor countries seemed likely to be left behind. However, according to a report released on February 23rd by the International Service for the Acquisition of Agri-biotech Applications (ISAAA), a non-profit outfit that monitors the use of GM crops, the sector is blossoming, especially in the developing world, where poor and unproductive farmers have the most to gain from such advances.

Despite the decline in food prices and the global economic downturn last year, the use of GM technology increased by about 7%, according to ISAAA. More than three-quarters of the soyabeans grown around the world are now genetically modified, as is roughly half the cotton and over a quarter of the maize (corn). Cru-

Geographically modified GM crop production, hectares, m 25 20 15 10 China 2000 01 02 03 04 05 06 07 08 09 ource: ISAAA

cially, developing countries now account for nearly half of the world's 134m hectares of transgenic crops, with Brazil, Argentina, India and China in the vanguard (see chart). Of the 14m or so farmers now benefiting from the technology, perhaps 90% live in poor countries.

Better yet, for the most part, this trend is now being driven not by pushy Western multinationals, but by domestic political pressure to increase agricultural productivity, and the home-grown research that this has fostered. Brazil's dramatic rise to the global number two spot (after the United States) owes much to the government's investment in local research centres like Embrapa, which in February won approval for an herbicide-tolerant soyabean developed locally in partnership with BASF, a big German chemicals firm.

The greatest potential for growth is probably in China. In late November the government gave its blessing to GM varieties of rice and maize. Both were developed by local researchers, without funding or other help from Western firms. As rice is the most important food crop in the world and maize is the main form of animal feed, these decisions could have a big impact. Clive James of ISAAA calculates that the GM rice alone could deliver benefits (in the form of higher yields, greater productivity, savings on pesticides and fertilisers, and so on) of \$4 billion a year to China's 100modd rice-growing households.

Africa's leaders have been reluctant to accept GM crops. But that is changing, argues Calestous Juma of Harvard University. South Africa, Egypt and Burkina Faso are encouraging the use of the technology. China is also beginning to pioneer "South-South" technology transfers in Africa and elsewhere, he says.

Attitudes are also changing at Western agribusinesses, some of which used to dismiss poor farmers as mere "seed pirates". As developing countries develop GM crops of their own, these firms are now pursuing public-private partnerships or joint ventures with local firms and otherwise softening their stance. Monsanto, a hard-nosed pioneer of transgenic crops, is donating its drought-resistant technology to a coalition called Water Efficient Maize for Africa, for example.

Yet in Europe, opposition to GM food appears as strong as ever, despite increasingly strident scientific dissent. The European arm of Greenpeace, a green pressure group, still denounces the technology and gloats about a decline of over a tenth in cultivation of GM crops in Europe last year. Sir David King, a former scientific adviser to the British government, argues that the unjustified vilification of GM is leading to needless deaths. He thinks the delay in the introduction of flood-resistant GM rice, for example, has condemned many in the poor world to starvation.



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India, too, has recently been caught up in a Frankenfood fight. In mid-February the government issued a moratorium on the development of own abespine. (Bi Brinjal, ast its known locally), despite and inglast year by an official scientific advisory body in favour of the technology. The government's decision was all the more puzzling given India's success with own conton, which has helped transform the country from an importer of cotton into the world's bigest exporter.

Ask Robert Fraley, chief technology officer of Monsanto, what he makes of Chinese and Indian GM technology, and he gives it a hearty endorsement: "I hope in future we can license it." That would depend, of course, on governments approving its use in the first place.

#### The boom in printing on demand

# Just press print

#### New technology promises to prolong the life of the book

ESPRESSO might seem an odd name for a bookmaking machine. But the ward-nobe-sized apparatus at Blackwell, a book-store in central London, and 30 other locations worldwide can print a paperback in about the time it takes to make and drink a shot of caffeine. A black-and-white printer produces the pages, a colour one the cover, they are then glued together by a third device which sits behind Plexiglas for passers-by to admire.

To some this is just "retail theatre", a clever way to lure people into bookstores. But others view it as the logical step in a development that has picked up speed recently, yet has not received nearly as much attention as electronic readers or touchscreen tablets: the printing of books on demand, rather than on a nublisher's bunch

About & of books in America are now printed on toner-based or inkjet machines—a rough proxy for print-on-demand (rool)—as opposed to on offset presses, estimates InterQuest, a market research firm. Over the next five years, it predicts, this figure will increase to 15%. In 2008, the latest year for which data are available, about 285,000 titles were printed on demand or in short runs—13% more than in 2007 and for the first time more than in the conventional way. Amanon, the world's biggest online bookseller, uses YOD machines, although it does not reveal how often.

Better technology is one reason for the rapid growth. These days only experts can tell whether a book has been printed on an offset machine or a digital one. But eco-

#### Hype about fuel cells

# Flower power

SAN FRANCISCO
A clean-tech start-up generates lots of excitement and a little electricity

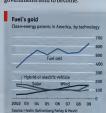
\*\*\* WF BELLEVE that we can have the same kind of impact on energy that the mobile phone had on communications: "So says K.R. stridar, the boss and Bloom Energy, which on February 24th unveiled what it claims is a revolutionary fuel cell. Thanks to such grandiose pronouncements and a vigorous publicrelations blitz, the "Bloom Box", as the company's product has been dubbed, has attracted plenty of headlines. But

there are good reasons for scepticism. That Bloom is now being promoted so loudly is hardly surprising. The firm, which has kept its work secret for the past eight years, has attracted a hefty \$400m from venture capitalists, including some who bet on the Segway, a high-tech scooter that promised but failed to change the world. A successful initial public offering or a sale to a strategic investor would allow Bloom's backers to reap a return on their investment. It would also give a fillip to the clean-tech sector, at which Silicon Valley's moneymen have thrown billions of dollars in the hope of hitting a Google-like payday.

Mr Sridhar paints a glowing picture of the potential of Bloom's technology. which uses a series of discs, made from zirconium oxide and coated in special inks, to induce a chemical reaction that turns natural gas, among other fuels, into electricity. This is more efficient, and therefore greener, than burning gas to generate electricity in a power plant and then transmitting it through the grid. The firm has produced some 100-kilowatt units for corporate customers, costing \$700,000-800,000. But in five to ten years, Mr Sridhar says, it will be able to make smaller Bloom Boxes, designed to power single homes, for less than \$3,000.

That claim has raised eyebrows in the fuel-cell industry. Mr Sridhar believes his target is achievable because Bloom will reap economies of scale as it ramps up production and because fuel-cell technology will improve in leaps and bounds. But a host of other firms have been trying for years to produce small cells cheaply. Andrew Neilson of Ceramic Puel Cells, which has deals with several European utilities to develop domestic fuel cells and has sold a few two-kilowatt units, points our that it is especially difficult os thrik all of the components needed to feed air and fuel to the cells and to extract energy from them.

Generous state and federal subsidies for fuel cells should help Bloom sell to big businesses. Thanks to these, and to savings on its electricity bill, eBay, which is one of several companies that has been trying out Bloom Boxes, reckons its investment in them will pay for itself in three years. But many firms, including experienced manufacturers such as General Electric, have their eye on the corporate market, too-which helps explain, along with filings from car companies working on fuel-cell batteries, why patents for fuel cells far exceed those for other sources of green power (see chart). Moreover, the more often subsidies are claimed, the less keen on them governments tend to become.



nomics is the main driver. Estimating the demand and thus the print run for a book has been a guessing game since Gutenberg's day. This means that the industry's supply chain is execedingly wasteful. About 10% of books in America are returned to the publisher. Although it still is pricier to print books digitally, the overall cost of printing on demand is lower, since books are printed only when there is a buyer, and thus do not languish in a warehouse merely to be destroyed laton be merely to be destroyed laton.

If there is a company that represents the

growth of PoD. it is Lightning Source, a sister firm of Ingram Book Company, the world's largest wholesale book distributor. Founded in 1997, it is now the world's biggest on-demand printer with an output of 2 om books in 2009. The average print run per title was less than two. The firm operates huge print shops packed with the latest equipment from companies such as Hewlett-Packard, Océ and Xerox. But its secret sauce is special software that, among other things, keeps track of the millions of orders and makes sure that covers do not by



Gutenberg was just guessing

end up on the wrong books.

University presses, with their thousands of slow sellers, have been among Lightning Source's first customers. About 10% of Cambridge University Press's sales of academic and professional titles are generated by books printed on demandcompared with 3% five years ago. Before POD, if sales of one of the publisher's books dropped below 50 copies a year, it was taken out of print. Now a publisher can keep titles available forever.

POD has also led to an explosion of self-publishing. Websites such as iUniverse, CreateSpace and Lulu allow authors to bypass sceptical publishers. Lulu, for instance, claims to publish 20,000 books a month. Authors upload their works free of charge and pay only when they sell a book. Espresso machines, meanwhile, can download and print any of the 2m out-ofcopyright books scanned by Google and a few thousand from conventional publishers, though many are still wary of making their content available in this new form.

Last year Hewlett-Packard, whose machines are known for advanced colour printing, developed an online service that allowed admirers of Barack Obama to customise a picture book about the president's election campaign by adding their own images. The company also operates a service called MagCloud, which allows customers to have their own glossy magazines printed for an affordable \$0.20 a page. Several thousand such publications have been produced since the offering was launched a year ago.

Despite all its advantages, POD is unlikely to take over the world. This is because in contrast to digital printing, whose per-unit costs stay pretty much the same, traditional offset printing exhibits strong economies of scale. As long as you have bestsellers with hundreds of thousands of copies, on-demand printing is not going to displace the conventional sort, says David Davis of InterQuest. Then there is regulation. In some countries, such as China, a licence is needed to publish books; others, such as Germany and France, have price controls for books.

All this makes it difficult to predict POD's impact on publishing's supply chain, which is already in upheaval, mainly because of the internet. Readers should benefit from the greater variety. More authors will get published, for instance, but there will also be more competition. Publishers may save money, but they may also lose their role as gatekeepers. The losers are easier to determine: used-book sellers, logistics firms and, of course, the makers of offset-printing equipment. The world's biggest, Heidelberger Druckmaschinen, is said to be considering moving back into digital printing after having spun-off such a business six years ago.

Some believe POD could spur demand for books, Dane Neller, the boss of On Demand Books, which makes the Espresso, wants to put one wherever people might feel the urge to read, from cruise ships to train stations. But he gets most excited when talking about taking the devices to poor countries. "The potential to democratise knowledge," he says, "is huge."

#### A boardroom row at Repsol

# Adding fuel

A policy shift in Spain heralds more upheaval at its biggest oil firm

BOARDROOM bust-ups are a rare occur-rence in the clubby world of Spanish business. But in the case of Repsol, Spain's largest oil and gas company, they have become commonplace, Antonio Brufau, the firm's executive chairman, has been at odds with Luis del Rivero, chairman of construction firm Sacyr Vallehermoso, which owns a 20% stake in Repsol. Mr Brufau survived an attempt by Sacyr to oust him last month. But the ruling Socialist Party has given the row fresh impetus by proposing a change to corporate-governance rules that may boost Mr del Rivero.

Sacyr was one of a trio of big Spanish construction companies that grabbed stakes in the country's biggest energy firms in the go-go days of 2006, near the height of Spain's property bubble. ACS Group snapped up 13% of Iberdrola, while Acciona bought 25% of Endesa. Acciona made a hefty profit by selling on to Engl, an Italian energy firm, last year. But the other investments are languishing. Sacyr spent some €6.5 billion (then \$8.4 billion) on a stake worth just €4.1 billion now, having

borrowed €5.1 billion to pay for it.

Hit by the sharp slowdown in the construction business, Sacyr relies on Repsol's dividends to service its debt. But Mr Brufau chopped the dividend by 19% in December, infuriating Mr del Rivero, Mr Brufau argues that the cut, which saved Repsol approximately €240m, was preferable to curtailing investment, Indeed, Repsol will need yet more cash, given the expense of developing its big recent discoveries off the coasts of Brazil and America. Last year its net debt nearly doubled to €14.7 billion.

Mr del Rivero has accused Mr Brufau of sticking recklessly to a heavy investment programme conceived when the oil price was much higher. But his efforts to impose his will on Repsol have been hampered by a bylaw that limits the voting rights of any single shareholder to 10%. This gives Sacyr little more say (it does get an extra seat on the board) than La Caixa, a savings bank with a 13% stake, which supports Mr Brufau. This week Sacyr's boardmembers gave in and accepted the lower dividend.

However, the Socialist Party is now proposing to scrap such bylaws, another of which has limited ACs's say at Iberdrola. The voting limits were originally conceived to protect minorities-something that is all the more important in Spain, where truly independent directors are rare. In practice, says Javier Garcia de Enterria, a partner at Clifford Chance, a law firm, the limits have tended simply to insulate management from big shareholders.

Both sides are suffering from the spat. Repsol is caught in what analysts at Citigroup call a "strategic vacuum". But Mr del Rivero's actions have also drawn attention to Sacyr's stretched finances, Repsol's dividends are still sufficient to pay the interest on the loan Sacyr took out to buy its stake. But the fall in Repsol's share price has forced it to put up collateral to meet margin calls. It is not clear how it intends to repay the loan when it comes due at the end of next year. But winning extra votes would make its shares in Repsol more valuable.



# The machine that ran too hot

The woes of the world's biggest carmaker are a warning for rivals

AS EXECUTIVES from Toyota, including the firm's boss, Akio Toyota, squirmed before their tormentors in America's Congress this week, there was intelleptible gloating from rival carmakers. Although it is Toyota that is currently in the dock after a cushing series of safety-related recalls across the world, competitors are only too aware that it could be their turn next. After all, there is not a single big carmaker that has not modelled its manufacturing and supply-chain management on Towota's "lean noduction" system.

That said, there is a widespread belief within the automotive industry that Toyota is the author of most of its own misfortunes. In his testimony to the House oversight committee on February 24th, Mr Toyoda acknowledged that in its pursuit of growth his firm stretched its lean philosophy close to breaking point and in so doing became "confused" about some of the principles that first made it great: its focus on putting customer satisfaction above all else, and its ability "to stop, think and make improvements".

James Womack, one of the authors of "The Machine that Changed the World", a book about Toyota's innovations in manufacturing, dates the origin of its present woes to 2002, when it set itself the goal of 15%. The target was "totally irrelevant to any customer" and was "just driven by ego", he says. The rapid expansion, he believes, "meant working with a lot of unfamiliar suppliers who didn't have a deep understanding of Toyota culture.

By the middle of the decade recalls of Toyota vehicles were increasing at a sound increasing at a sound increasing at a sound increasing at a many and a sound increasing at a many and a sound increasing at a many and a sound increasing at a sound increasing and increasing another (albeit undeclared goal overtaking General Motors to become the world's biggest carmaker. Even as Toyota sweep past GM in 2008, the quality problems and recalls were mounting.

The majority of those problems almost certainly originated not in Toyords own factories, but in those of its suppliers. The automotive industry operates as a complex web. The carmakers (known as original equipment manufacturers, or ozms) sit at its centre. Next come the tier-one suppliers, such as Bosch, Delphi, Denso, Continental, Valeo and Tenneco, who deliver big integrated systems directly to the ozms.

Fanning out from them are the tier-two suppliers who provide individual parts or assembled components either directly to the 0.EM or to tier-one suppliers. (crs. Corp, the maker of the throttle-pedal assemblies that Toyota has identified as one of the causes of "unintended acceleration" in some of its vehicles, is a tier-two supplier whose automotive business accounts for about a third of its sales.)

On the outer ring of the web are the tier-three suppliers who often make just a single component for several tier-two suppliers. Although there are literally thousands of tier-two and tier-three suppliers around the world, their numbers have been culled over the last decade as the OEMs and the tier-one firms have worked



A vale of tiers

to consolidate their supply chains by concentrating business with a smaller number of stronger companies.

Toyota revolutionised automotive supply-chain management by anotining certain suppliers as the sole source of particular components, leading to intimate collaboration with long-term partners and a sense of mutual benefit. In contrast, Western carmakers tended either to source in-house or award short contracts to the lowest bidders. The quality Toyota and its suppliers achieved made possible the "just in time" approach to delivering components to the assembly plant. In his book, Mr Womack quotes a Toyota supplier: "We work without a safety net, so we can't afford to fall off the high wire. We don't."

Most big car firms now operate in a simlar way Ford, for example, will often work with a tier-one supplier for up to three years before a new model comes off the production line to ensure that the design and manufacturing of important components is sound. So-called cross-functional teams from both firms strive to eliminate defects. Rather than always going for the low bid, carmakers now look at the total cost of a component including potential interruptions to production and, further down the line, customer warranty claims if quality is not pto scratch.

It quantry is not up to scratch.

By and large, the relationships between the OEMS and the tier-one suppliers run smoothly. When problems do crop up, it is usually with the tier-two and tier-three firms. A senior purchasing executive at one carmaker says that consolidation, the need to trim capacity and the shock to demand that began in mid-2008 have put the weak-er parts of the supply chain under great strain: "Some of these are quite fragile businesses. There's a need for visibility, but we don't always have it. If something goes wrong, we need transparency and speed of communication to make sure it doesn't get to the customer."

A consequence of Toyota's breakneck expansion was that it became increasingly dependent on suppliers outside Japan with whom it did not have decades of owrking experience. Nor did Toyota have enough of the senior engineers, known as senset, to keep an eye on how new suppliers were shaping up. Yet Toyota not only continued to trust in its sole-sourcing approach, it went even further, gaining unprecedented economies of scale by using single suppliers for entire ranges of its cars across multiple markets.

across multiple markets.

A senior seccutive at a big tier-one supplier argues that although Toyota's single-supplier places by the supplier places of the suppl

In the aftermath of Toyota's crisis, the industry is now saking itself whether sole-industry is now saking itself whether sole-industry is now not to have all your eggs in on be basket, but no to have maybe three suppliers for major to have maybe three suppliers for major components who can benchmark each other, says another purchasing manager, until very recently. Toyota was the peerfess exemplar. For now, at least, it is seen as an awful warning.

# Schumpeter | The emperor's clothes

Like other bosses, media moguls are recovering their poise. But that's no reason to start making daring moves



HOLLYWOOD knows how to tell a good story. The arc is often the same: a period of calm, a growing crisis, a satisfying triumph against overwhelming odds, a kiss. Film-goers and television-watchers know and appreciate the format. Investors are becoming familiar with it, too, because media executives are telling a similar story about their own business.

A year ago the business was in a disastrous state. Crises in the housing market and the car industry were suppressing print and television advertising. Media stocks were tumbling. The New York Times ran a profile of Rupert Murdoch which argued that his love of newsprint was weighing on News Corporation-true, perhaps, but a bit rich coming from a newspaper that was losing money, (A few weeks earlier, the Atlantic had run a piece about the possible demise of the New York Times.) Banks had abruptly pulled out of film financing, impoverishing that business. The 2009 Sundance film festival was utterly gloomy.

Now look at them. In the past few weeks several big media companies have reported unexpectedly good earnings. Share prices have bounced back strongly. CBs, which was trading at barely more than \$3 a share at one point last March, is now about \$13. And the moguls seem more confident than ever. News Corp is "on the cusp of a digital dynasty", Mr Murdoch announced earlier this month. "Content is not just king," he explained. "It is the emperor of all things electronic.'

There are several reasons for this exuberance. The big, blueskinned one is "Avatar", an enjoyable nonsense of a film that has broken the record for worldwide box-office sales, at least according to Hollywood accounting rules (in Tinseltown there is no such thing as inflation). It capped a splendid year at the box office. More Americans watched the Super Bowl than have ever watched any other television programme. Television advertising has bounced back, and print advertising seems to be stabilising. Predictions that a respectably sized city would be left without a single newspaper have so far proven false. Struggling publications found plenty of branches to prune. In the next 12 months year-on-year comparisons ought to be flattering. And 2010 is an election year in America, which is always good for business.

Technology has provided cheer, too. Television manufacturers have suspended the rather silly race to build ever-bigger

screens and are trying to make their sets better. Televisions made with organic light-emitting diodes look wonderful. 3-D television looks more wonderful still. If people want such toys they will also, in theory, want good-looking content to put on them. Apple's portable iPad cheers media executives for the same reason. Robert Iger, Disney's boss, calls it a "game changer". Although it has not yet appeared in shops, the iPad has already emboldened book publishers such as Macmillan to demand better terms from Amazon, whose Kindle e-reader was threatening to dominate the electronic-book market and bring down the price of all books.

Finally, there is the fact that media firms are beginning to look more like media firms. Time Warner has divorced AOL and is now dedicated to the production of content. Ticketmaster and Live Nation will merge to create a giant company focused on live performance, the healthiest bit of the music business. Regulators will probably allow Comcast, an American cable company, to buy NBC Universal, a film and television outfit currently owned by General Electric and Vivendi, two industrial giants. As these deals come together, private-equity investments in media firms such as EMI and Readers' Digest have soured. The moguls have seen off the barbarians. All this is very pleasing. But the emperor's new outfit has a few holes.

Screenwriters often employ a plot device called a reversal, in which a hero who seems to be making progress abruptly finds himself worse off, and facing a much greater menace. Businesses can find themselves in the same predicament. Think of America's carmakers half a decade ago. Having banished concerns about rolling sport-utility vehicles, they were happily selling huge, gas-guzzling vehicles again. But the car companies meanwhile failed to develop alluring, profitable small cars-an omission that would cripple them a few years later when oil prices rose and credit evaporated.

Other industries may have neglected more lasting threats while grappling with the recession. The clean-technology business, which slumped following the credit crunch, seems to be recovering. But as the Copenhagen climate talks suggested, and opinion polls have since confirmed, enthusiasm for tackling climate change is ebbing. It is not clear how soon green sources of power will become competitive with their grubbier rivals and whether governments will keep paying the subsidies on which they depend in the meantime. By the same token, businessmen may be flying again, but many airlines are still hamstrung by nationalist regulations that undermine economies of scale.

#### Plot devices

But the obstacles in the way of the heroic media mogul are especially big. Advertising is swiftly migrating online, and moving away from media companies as it does so. The internet retains the power to disintermediate (that is, bypass media firms by bringing products straight to consumers) and de-aggregate (turning albums into tracks and newspapers into articles). Few have worked out a way of making money from putting content online. Nor is it clear that a willingness to spend on media-playing devices is a wholly good sign. Consumers bought lots of iPods in the past few years. But they did not spend much money on music.

And there is always the threat that media moguls will go on another buying spree. The industry has a history of splashy mergers and acquisitions, particularly involving technology outfits, which end up destroying value. So let the content cocks crow. But if they start talking about synergies, run for the hills.



### Scots on the rocks

#### What really went wrong at RBS? And how can it be put right?

THERE is a road to nowhere in Royal Bank of Scoland's campus just outside Edinburgh. It ends abruptly amid rolling parkland and was laid on the presumption that a new building would eventually be added to the bank's already hig office complex. That sense of desting, that the bank would always get bigger, is dead. The executive wing is being refitted for humble workers. The art has been taken from the walls and loaned to British galleries. Stephen Hester, the chief executive, has split his predecessor's office in two and occuring of rass is the biggest and most complex of any bank in the world.

MF Hester may be the kind of big, brisk City banker who has the average brave-heart reaching for his claymore, but his surelatives are part of an Rus tradition. It is one of the world's oldest banks, founded in 1727, Alitis peak it was the world's sixth-largest bank by risk-adjusted assets. In 2007 it fed the consortium that made the largest even takeover of a bank, ABN AMRO. A year later it needed Europe's big-gest bail-out, its former boss, Sir Fed Goodwin, was one of the most villified bankers around. Rus was, if you believe a government minister, "the worst-managed bank his country has ever seen."

The numbers are certainly ugly. On Feb-

ruary 25th RBS reported an underlying 68 billion (Sta2-Shillion) Pate-Also Sor 2009, bringing its total since 2007 to 62b billion. For Laxpayers RBS is more than simply a gory story of corporate mutilation. They own 70% of it and their £a6 billion investment is underwater. Met strangley, the bank's new top brass is quietly confident. According to Sir Phillip Hampton, the chairman who was parachuted in last year, "we are not building on sand here. We are building on snock." That optimism partly refets the unusual nature of RBS sé demise.

Historical grievances

Many bank failures were farcical: the bosses were revealed as clueless figureheads unaware that somewhere in their firms masters of the universe were playing with financial hand grenades. A few banks turned out to have business models that were totally unviable except during a credit bubble. RBS was different. Its top brass wore company ties and ran a tight ship. Its core businesses were good. Among the veterans there is gobsmacked astonishment that RBS, with its flinty culture, is mentioned in the same breath as Lehman Brothers. Indeed there is something unnervingly purposive about RBS's demise: far from being out of control, the firm made a calculated bet that went wrong.

This is reflected in attitudes to Sir Fred north of the border Edinhurph's financial bigwigs ridicule the old top brass of suocs. Scotland's other big bank, which was bought by Lloyds Group as part of a government bail-out. No one calls Sir Fred an diot. Words like genius, bully dicator, autistic and superhuman are used. "I thought if there was one thing you could rely on it was him," says an ex-colleague. Another says, "Fred had never failed until he failed." Even the government's spite seems angely contrived. As late as 2008 Sir Fred and his wife were guests at the prime minister's country house, official records show.

The focus on Sir Fred is itself a distortion. The main cause of RBS's failure was its policy of aggressive balance-sheet management. The bank entered the crisis with a core capital ratio of some 4%, about what is now seen as permissible after a crisis but not before. High leverage was a long-standing strategy. In the first half of the 1980s both RBS and Bank of Scotland (the predecessor of HBOs) were almost bought by English banks. Both responded by hiring entrepreneurial managers and expanding in England and abroad. With a tiny home market, says a former executive, they had to "stretch every pound" of capital and run with fewer deposits than was comfortable. Even then both banks remained takeover candidates. Salvation came in 1999, when both bid for NatWest, a much bigger English lender. RBS won. As consolation Bank of Scotland combined with Halifax, another English bank, to become HBOS.

The lessons of NatWest run deep at RBS. The deal was a triumph, but meant running down capital to dangerously low levels and rebuilding it with cost cuts >>

vielded by the merger. This would later form the template for ABN. It also emboldened RBS's relatively primitive view of financial performance, with a focus on the bottom line, not safety. Mr Hester views this legacy as pernicious and points to the concentrations of risky loans on RBS's books as evidence of deeper problems than boardroom errors about capital ratios. At the end of 2008 RBS had, for example, £97 billion of commercial-property loans, almost twice as much as Barclays.

#### Dutch disease

It is possible now to find fault with lots of other things at RBS, from micromanagement (Sir Fred chose all the carpets, apparently) to poor financial reporting and sponsorship of sport. Yet it might, just, have survived had it not been for ABN. Working out what proportion of losses came from ABN has become controversial. Some former ABN executives argue that RBS has allocated too many losses to its bit of the Dutch bank for presentational and operational reasons. Still, the public accounts of RBS's subsidiaries indicate that if its share of ABN is excluded it more or less broke even in the crucial period of 2008 and the first half of 2009, RBS did make large trading losses in Britain and America. but these were largely offset by other operations. Nor did RBS's funding before ABN preordain nationalisation: in mid-2007 its absolute level of debt and interbank borrowing was similar to that of Barclays, the only big British domestic bank to avoid a state capital injection. What pushed RBS over the brink was ABN-and not the deal's mediocre logic or crazy valuation, but rather the losses within the Dutch bank and the strain it put on funding.

Why did RBS bid for ABN? One former colleague thinks Sir Fred was ready to



Screamingly obvious? Not to Goodwin

leave RBS and needed a new lease of life. Yet according to Jeroen Smit, a Dutch journalist, Sir Fred and Rijkman Groenink, ABN's boss, first discussed a combination in February 2005. In its first incarnation in early 2007 the consortium's deal had some logic. RBS's bits of ABN would bulk up its second-tier investment bank and expand its limited retail presence in America. Santander, one of its partners, got Brazil and Italy: Fortis, the other, took the Dutch and Belgian business. In August 2007, 95% of voting RBs shareholders (representing 61% of its capital) backed the deal. Most executives were gung-ho. "We'd [already] built this incredible thing and were incredibly proud," says one. When Sir Fred formed a consortium for ABN, "it was like a rabbit out of a hat 1

Much has been made of the vegetative state of British bank boards, But RBS's was bullish Its chairman since 2006. Sir Tom McKillop, was "not a meek guy", says a former director. As boss of AstraZeneca, a pharmaceuticals firm, he had keenly pushed new drugs, not always successfully. At RBS the psychology of the underdog had been replaced with fear of share-price underperformance. The director says that the bank's board had become obsessed with the low rating of its shares, even "frankly" discussing if Sir Fred was to blame. It chose to up the ante, "The board as a whole from 2006 onwards wanted us to go further and faster."

By the time Barclays, a rival bidder for ABN, withdrew on October 5th 2007 it was already, to use a favourite phrase of Sir Fred's, "screamingly obvious" that the deal was mediocre at best. Financial markets were choppy and RBS was acquiring only ABN's more cyclical investment bank (by then the Dutch bank had sold its American retail arm to Bank of America). Why didn't RBS withdraw? Because the bid was contested it had been allowed only limited access to ABN's books, back in May. ABN had, though, issued an upbeat trading statement on September 17th and, insiders say, the market disruption was not yet severe enough to invoke the deal's "material adverse change" clause. Sir Fred's stubbornness played a part, too. "He would argue black is white," says a former colleague. Yet in truth ABN did not seem big enough to break the bank. Measured by risk-adjusted assets, it would represent 11% of a newly enlarged, £500 billion firm.

Just how false that impression was is now clear. Depending on which set of subsidiary accounts you use, in 2008 and the first half of 2009 ABN accounted for 75-144% of the combined group's operating losses and 47-50% of its loan impairments and gross writedowns from credit and trading activities. Particular damage was done by ABN's exposure to collateralised debt obligations (CDOs) and monoline insurers. Although ABN accounts for only



Hester has little time for old ties

about a quarter of the RBS assets covered by the British government insurance scheme, realised losses on these assets are heavily concentrated in those two categories. All this was compounded by the complicated consortium structure. During the takeover battle ABN had sold its American bank, LaSalle, for the equivalent of £8 billion. In theory that capital belonged to RBS; in practice, says a former executive at the combined group, "the money got stuck". The Dutch regulator, worried about the unfolding disaster, refused to let it be passed quickly to the Scots. That roughly doubled the capital RBS had tied up in ABN.

Why did RBS's bit of ABN lose so much money? It may reflect arbitrary accounting allocations after the event. Even so, there is little question that ABN's investment bank was a weak business. A former ABN credit officer who left before 2007 says its risk systems and communication lines were a "complete clusterfuck". The Dutch bank had struggled to prepare for Basel 2, the new capital standard; last November RBS said that implementing it would roughly double capital requirements at its bit of ABN, an abnormally high increase. Someone involved in Barclays' aborted bid says the Dutch bank "had raided every cookie in the jar" to boost its earnings, having been under threat of takeover for two years. Few people think ABN went berserk on risk during the takeover battle, but there is evidence it was slow to put the brakes on risky activities. For example, 79% of its super-senior CDO exposures at the end of 2007 seem to have been originated that year. Only 7% of RBS's were. ABN's largest sour corporate loan was made to a company that endured a buy-out that year.

But RBS's predicament may also have led it to gamble for redemption. According to a former ABN executive, in late 2007 >> » Bas, desperate for profit and capital, insigned ABN's fisky credit trading positions be kept open—and some be increased. "Bas decided to take a massive punt," he says. This paid off in early 2008, when credit markets bounced, but after they slumped again in early spring ans "took a blood-bath". Bas also refused to lose down ABN's exposure to monoline insurers. The Scots had "aye ard adid nothing."

The failure to Out ABN's risky positions was RBn's key mistake. Some veterans argue that this reflected Sir Fred's relative disengagement from investment banking: he preferred to walk call-centre floors, not trading floors. Others claim he was closely engaged. One says "he knew his numbers", but chose to run with high risk levels. In any case, a sense of chaos quickly enguifed xes. In early 2008, a few weeks after giving an upbeat outlook and raising tei dividend, xes launched a jumb or rights issue. Even that only got its core capital ratio to 6%, with most losses to come to the control of the cont

The purchase of ABN widened RBS's dependence on wholesale funding just as it was drying up. From about £230 billion of debt and interbank borrowing in mid-2007, RBS had £524 billion by the end of that year. There was a "drip, drip" as counterparties cut their exposure to the combined firm, says one executive. Within months Bear Stearns, then Lehman, then HBOS were in trouble; RBS was next. According to two directors on the board then, in the week before its bail-out in October 2008, RBS did not suffer an outright run, but its counterparties were typically only prepared to lend to it overnight. Confidence had evaporated.

#### The Hesterminator

Mr Hester has been in the post for a year and a half since he was plucked from British Land, a property firm. His family are in England. He hasn't tented or bought a place in Edinburgh. He says the journey a place in Edinburgh. He says the journey York when he was chief financial officer of Credit Suisser First Boston. He knows the detail back to front. He is polite to politicans but not obsequious. He's tough. He doesn't wear an RBS tie. He is, in short, exactly what the bank needs right hank needs right has cally what the bank needs right has cally what the bank needs right has call what the bank needs right has the said what he said what he said has the said what he bank needs right has the said what he said has the said what he said has the said has the

RS failed not because if was a bad firm, but because it had too little capital and then bought ABN. Mr Hester says the core operations are stong enough that you can "abuse them a lot and still bring the bank back to health." Reversing the first mist take-capital levels—has been the priority, with the bail-out package finally agreed at the end of last year. The government owns 220 billion of common shares and 225, billion of convertible stock, giving it a 70% voting stake today, which could rise to 84%, callshough it has said it will cap its votes at 75%). The state has also 228 billion of asset from tail risks and has promised to buy

£8 billion more shares if RBS's core capital ratio drops below 5% again.

That is unlikely. The insurance package has taken Res Sorce apidla ratio to ta's, one of the highest of any big bank. Mr Hester reckons the "cultural gus of the company" are fine, but says that the most senior 50 too managers have been culled or reeducated about acceptable degrees of safety. That includes tackling ars's excessive concentrations of loans and long-standing fascination with absolute profits, not risk-adjusted returns.

Reversing the second mistake, ABN, will take longer. Mr Hester has used the same mechanism as Citigroup, creating a non-core division into which the nastiest assets are dumped and wound down. It holds about a third of RBS's risk-adjusted assets, mostly from the combined investment bank (ABN's share is not clear). The farther flung ABN offices in Asia are being sold. European competition authorities have demanded further disposals as a condition of state aid, to Mr Hester's frustration. Within three years RBS will have to sell its insurance unit, its commodities activities (some of which IPMorgan hought on February 16th), its credit-card payments business and some branches in England.

The plan is that by 2011 the bank will be smaller, leaner and in profit. That should help improve the political "atmospherics", says Mr Hester, who has waived his bonus for 2009. He is also upbeat about improving efficiency levels. None of the core businesses "had been managed to the top quartile of performance". Core RBS has a powerful position in retail and commercial banking in Britain (comprising about 40% of risk-adjusted assets), an investment bank that excels at foreign exchange and fixed income (about one-third) and a middle-sized American retail operation that is strong in several East Coast states. Like his predecessors until 2006, Mr Hester argues high market shares in specific products, not overall size, matter.

Yet RBS will be one giant strategic question-mark by 2011. In a sense this is the same dilemma Sir Fred grappled with. All is main markets will be mature. Its core business is 4th in the world by risk-adjustice dassets now and will slip lower as other firms grow. Its investment bank ranks about tenth by revenues. Its American operation is, by assets, one-tenth of the size of peration is, by assets, one-tenth of the size of fallen into the government's arms are successful would almost certainly be expanding its investment bank and its foreign operations. ANN was a spectacularly cach handed attempt at this. Other British banks, no-tably Bardusy, have been more successful.

With the state as a majority shere holder, it will be far harder fow He there expand the core businesses. At some bailed out banks, such as use, the government has already sold out at a profit. The state will be on ass's register for a long time. It breaks even on its investment at sop per share. That is well above this week share price of 3:-40 pand where analysts expectualed vilug book value to bottom out. Nor will RIS generate anything like enough capital from profits to repurchase the government stock, as is the plan at other firms, such as Belgium's RIC.

If Mr Hester gets Bars's bad debts under control quicker than expected and wrings out more costs, the share price will recover enough to allow the state's stake to be shrunk below 50% and the strategic shadeies to be taken off the bank. If the does not, Bas will come under huge pressure to auction some businesses to bring in cash, either to boost the share price or to buy back some government stock. Mr Heste, no asset-stripper but no sentimentalist either, is aware of this. He says the government is "utterly indifferent" about whether Bastegains its badge as national champion.

And what of the road to nowhere at headquarters? Perhaps the empty parkland will be sold to the golf course next door, which only has 12 holes. Maybe Sir Fred, who last year was rebuffed by the Royal and Ancient club at St Andrew's, the Scottish establishment's ultimate snub,

will play there one day.



A Scottish catastrophe



#### The balance of economic power

# East or famine

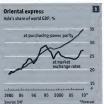
HONE YOUR

Asia's economic weight in the world has risen, but by less than commonly assumed

"HE idea that the world's economic centre of gravity is moving eastward is not new. But the global financial crisis, many argue, has given the shift in economic power from America and western Europe to Asia a big shove. Emerging Asia rebounded from recession much faster than the developed world; its banking systems and debt dynamics (see next story) are much healthier. In 2009 China overtook Germany to become the world's biggest exporter. On one measure it now looks likely to become the world's biggest economy within ten years. But just how far has power really tilted towards Asia?

The region has certainly become more important to bankers and businessmen. accounting for a record share of many companies' profits last year. Several senior executives have relocated to Asia, the latest being HSBC's chief executive, Michael Geoghegan, who officially moved from London to Hong Kong on February 1st. Since 1995 Asia's real GDP (even including less sprightly Japan) has grown more than twice as fast as that of America or western Europe. Morgan Stanley forecasts that it will grow by an average of 7% this year and next, compared with 3% for America and 1.2% for western Europe.

Yet a closer look at the figures suggests that the shift in economic power from



West to East can be exaggerated. Thanks partly to falling currencies, Asia's total share of world GDP (in nominal terms at market exchange rates) has actually slipped, from 29% in 1995 to 27% last year (see chart 1). In 2009 Asia's total GDP exceeded America's but was still slightly smaller than western Europe's (although it could overtake the latter this year). To put it another way, the output of the rich West is still almost twice as big as that of the East. As for the popular belief that Asian pro-

ducers are grabbing an ever-larger slice of exports, the region's 31% share of world exports last year was not much higher than

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in 1995 (28%) and remains smaller than western Europe's. Indeed, the shift towards Asia appears to have slowed, not quickened. Its share of world output and exports surged during the 1980s and early 1990s. Although China's share has grown since then, this has been largely offset by the decline in Japan, whose share of output and exports has halved.

What about Asia's financial muscle? Asian stockmarkets account for 34% of global market capitalisation, ahead of both America (33%) and Europe (27%). Asian central banks also hold two-thirds of all foreign-exchange reserves. That sounds impressive, but their influence over global financial markets is more modest, because official reserves account for only around 5% of the world's total stash of financial assets. The bulk of private-sector wealth still lies in the West. The fact that Asian currencies make up only 3% of total foreign-exchange reserves indicates how far Asia still lags in financial matters.

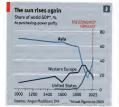
The "rise of Asia" is no myth, however. GDP figures converted at market exchange rates understate Asia's real expansion. Many currencies tumbled during the Asian financial crisis in the late 1990s, slashing the dollar value of their economies, Japan's nominal GDP has been squeezed by deflation. More importantly, prices of many domestic products, from housing to haircuts, are always cheaper in low-income countries, implying that households' real spending power is bigger. If GDP is instead measured at purchas-

ing-power parity (PPP) to take account of these lower prices. Asia's share of the world economy has risen more steadily, from 18% in 1980 to 27% in 1995 and 34% in 2009. By this gauge, Asia's economy will >> > probably exceed the combined sum of America's and Europe's within four years. In PPP terms, three of the world's four biggest economies (China, Japan and India) are already in Asia, and Asia has accounted for half of the world's GDP growth over the past decade.

Some economists claim that PPP measures exaggerate Asia's economic clout. What really matters to Western firms is consumer spending in plain dollar terms. Although over three-fifths of the world's population live in Asia, they only account for just over one-fifth of global private consumption, much less than America's 30% share. But official figures almost certainly understate consumer spending in emerging Asia, because of the poor statistical coverage of spending on services. Figures from the Economist Intelligence Unit, a sister company of The Economist, suggest that Asia accounts for around one-third of world retail sales. Asia is now the biggest market for many products, accounting for 35% of all car sales last year and 43% of mobile phones. Asia guzzles 35% of the world's energy, up from 26% in 1995. It has accounted for two-thirds of the increase in world energy demand since 2000.

Many Western firms are more interested in Asia's capital spending than its consumption, and here Asia is undoubtedly the giant. In 2009, 40% of global investment (at market exchange rates) took place in Asia, as much as in America and Europe combined. In finance, Asian firms launched eight of the ten biggest initial public offerings (1908) in 2009 and more than twice as much capital was raised through 1908 in China and Hong Kong last year as in America.

Winston Churchill once said: "The longry you can look back, the farther you can look forward." The new economic order is in fact a resurgence of a very old one. Asia accounted for over half of world output for 180 fthe past 20 centuries (see chart 2). And its importance will only increase in the coming years. Rich countries' growth rates are likely to be squeezed over the next decade as huge household debts dampen spending, and soaring government debt psending. And soaring government debt



and higher taxes blunt incentives to work and invest. In contrast, growth in emerging Asia (almost four fifths of the region's total output) is likely to remain strong. Robust growth should also give governments in emerging Asian economies the confidence to let their currencies rise, which would further boost the relative size of their economies in dollar terms.

By 2020 Asia could well produce half of some big Western multinationals' sales and profits, up from a typical proportion of 20-23% today. Asian staff eagerly await the day when they can fix the times for international conference calls, so Europeans and Americans have to put up with aftermidnight discussions with the Beijing of-fice. That may be the best test of whether economic power has really shifted east.

#### Emerging-market sovereign debt

### Risk redefined

HONG KONG

The new problem with Asian sovereign debt-scarcity

ELEVEN months ago Indonesia's government paid almost 12% to raise long-term money on the international capital markets, while America was financing its own debt for less than 3%. By early January the rate on America's debt had climbed a bit, but Indonesia's financing costs had plunged to a shade under 6%.

This remarkable shift in financing costs in ont unique to Indonesia. The Philippine government issued a dollar-based bond in January carrying an interest rate of 54%. A year earlier, its outstanding bonds carried an effective rate of 8.4%. Malaysia and an effective rate of 8.4% unlaysia and support of the simulation of the simulation

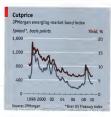
Nor is investor enthusiasm confined to Asia. Yields on emerging-market sovereign debt globally are approaching all-time lows (see chart). According to Fernando Garrido, who co-ordinates public-debt operations at Brail's Treasury, the past three auctions of ten-year bonds have attracted record demand. Poreign ownership of Brail's domestic bonds reached its highest-ever-level in January, he says.

A large part of emerging markers appeal lies in the structure of countries balance-sheets. In Asia, a combination of debt forgiveness, fast growth and restraint in government spending has helped the debt-to-GDP artic contract sharply in almost every country since 2000. According to Standard 8 Poor's (58P), a ratings agency, Indonesian public debt has dropped from 65% of GDP in 2000 to less than 10% from 0% from

There are exceptions to this nosy picture, the obvious one being a dar's most developed market, Japan, whose gross public debt is almost 200% of our. Malagoria and Vietnam have seen rising debt stocks, too. In neither case is their debt-to-our ratio particularly high-less than 50% for Malagoia and below 90% for Vietnam—but any increase in this ratio could prompt a reevaluation, particularly for Vietnam, which also suffers from high inflation and a weak banking sector.

Still, it is hard to underestimate the appeal of expanding economies, particularly in the current environment. That has prompted a scramble for Asian securities, revealing another large shift to have taken place over the past decade. Since the 1997-98 Asian financial crisis, when falling currencies made it much more expensive to pay off foreign creditors, many emerging markets have been careful to raise funds for sovereign debt locally. The amounts they raise on global capital markets are pretty trivial: less than 2% of South Korean and Singaporean government debt is denominated in foreign currency, for example. "The impact of that scarcity is substantial," says Ronan McCullough, head of debt syndication for Asia at Morgan Stanley, an investment bank, Unlike European and American sovereign debt, which is all too available, Asian debt commands favourable prices in part because it is rare.

It is possible for outside investors to buy Asian debt locally, but it is not easy. Some countries apply withholding taxes. There is little liquidity. And buying sovereign debt locally inevitably means taking on currency risk. There are, however, compensating factors. Yields on sovereign debt issued within Indonesia, the Philippines and other Asian countries are significantly higher than yields on dollar-based bonds. Governments are willing to bear these higher costs to avoid the kind of dumping and capital flight that took place during the Asian crisis, but it is curious that local investors require more compensation than international investors. Perhaps their closeness to the market gives them an insight international punters lack?



### Circular logic

# Private-equity companies look to each other to solve their problems

JF YOU are looking for a way out, don't froget the way you came in. For private-equity firms that want to sell portfolio companies, there are three big exit routes: an initial public offering (IPO), a sale to a rated buyer, or a sale to another private-equity firm (also known as a "secondary uby-out"). Market volatility has led private-equity firms to cancel several 1POs this year, among them New Look and Matlan, two British retailers, and Travelport, an American travel company. Sales to trade buyers continue to tick over. But the real activity has been in the secondary market.

Áccording to Pregin, a research firm, there have bens \$3,9 billion vomth of secondary buy-outs so far in 200, compared with \$59 billion in all of 2009. To date, the biggest deal of 2010 is a secondary buy-out, Bridgepoint's sale of Prets at Home, a British pet-shop chain, to Kohlberg Karvis Koberts for £950m (\$3.5 billion). On February 23 did added to the list by agreeing to sell Ambea, a Scandinavian health-care firm, to Triton for £850m (\$1.2 billion).

Secondary buy-outs are a neat solution to two of the industry's big headaches. Sellers need to demonstrate decent returns to investors, especially if they are planning new fund-raising rounds. Buyers are under pressure to invest their capital after lacklustre activity over the past two years. Earlier this month, for example, BC Partners fought off Lion Capital and Bridgepoint to buy Spotless, a French household-products company, from AXA Private Equity. A year ago its €5.9 billion, 2005 vintage fund was said to be only 50% invested. At least two-thirds of its capital typically needs to be invested in the first five years of a fund's life. The Spotless deal allowed BC Partners to invest nearly €300m in equity.

A private-equity house with hots of capial left in its fund runs the risk of losing out on future commitments, as investors or doubt its ability to put their money to good use. Any capital not invested is returned to the fund investors and the buy-out house forgoes management fees on the uninvestle capital. This pressure to invest is particularly great for megafunds that are sitting on billions of dollars raised before the financial crisis. Their dry powder may explain why European secondary buy-outs have

Private-equity owner?

pulled in more than four times as much as trade sales in the past month, and why their average price-tags are higher. According to mergermarket, a research firm, the average value of European secondary buyouts over the past six months has been 6167m, compared with an average value of Furm for trade deals.

Raising finance for secondary deals is easier, too, since companies have already been pored over by lenders. "There is arguably less risk involved if the banks are already familiar with the asset; they are more willing to keep lending if there has been no bad news," says Sylvain Berger-Duquene of Montagu Private Equity.

How well investors are being served by secondary buy-outs is less clear. "Fund investors are not always impressed if their money is reinvested in the same asset through a different one of their funds," points out Chris Masek, managing partner of IK Investment Partners. Far from coercing private-equity houses to sell rashly and make modest returns, some fund investors have even been trying to negotiate longer holding periods. Buyers are just as vulnerable to getting the price wrong. True, Providence Equity Partners opted on February 23rd for an IPO of Kabel Deutschland, a German cable-television firm, after bids from private-equity suitors disappointed. But the risk of overpayment in a secondary buy-out is great. Once a business has been spruced up by one owner, there should be less value to be created by the next.

#### Interest-rate risk

### Surf's up

Banks' next big problem appears on the

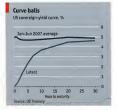
HOWARD ATKINS, the chief financial officer of Wells Fargo, a big American bank, recently said that he does not lose sleep worrying about interest-rate risk. But then, he joked, his job is so tough that it leaves him only one hour a night to nap.

Regulators, too, are getting restless. Last month a group of American agencies warned that banks need to sharpen up their management of interest-rate risk in readiness for a rise in short-term rates, which were cut to close to zero at the height of the crisis and remain there. They urged banks to plug a sudden rise of up to four percentage notins into their stress tests.

Nobody expects anything quite so dramatic. The Federal Reserve still talks of keeping rates extraordinarily low for an "extended period", a message retierated by Ben Bernanke, the Fed's chairman, in testimony to Congress on February 24th. rope's central banks are likely to follow America, not lead. But the surprise increase in the Fed's "discount" rate for emergency loans to banks on February 18th, from 0.5% to 0.75%, has energised those who fret that rising interest rates may be banks' next big problem.

The drastic rate cuts of 2007-08 greatly steepened the "yield curve", in difference between short and long-term rates (see Lard). Banks have flocked to "suf' the curve", borrowing cheap, short-term funds and investing them in higher-yielding, longer-dated assets. This helped rebuild profits, but when short-term rates rise, banks may face a double whammy of dearer funding and less profitable assets.

Other factors could put upward pressure on banks' funding costs even if monetary policy remains inactive. One is the increased competition for loans from >>



governments as budget deficits balloon. Another is demand for funds from banks themselves, given how much debt they have to roll over in the next two years.

Analysts are busy trying to work out which banks will suffer from higher interest rates and which will benefit. "Assetsensitive" firms, whose assets are of shorter duration than their liabilities and therefore reprice faster, tend to do well when rates rise. "Elability-sensitive" banks are more exposed to rising funding costs and see their margins soucezed.

Among big banks the picture is mixed.

A 0.5 percentage-point rise in rates would

cost Citigroup \$77mm in annual net interest income, reckons CreditSighs, a research firm. Wells Fargo would gain by a similar amount. On a recent conference call, Mr Alkins said he is resisting the easy short-term profits from investing in long-term assets today in the hope of making a bigger term profits from investing in long-term assets today in the hope of making a bigger stilling when interest rates rise. The out-look for small banks is bleaker. Many have switched out of construction loans to longer-term mortgages, reducing their credit risk but increasing their interest rate exposure because they are less able to reprice assets in line with funding costs.

Even those banks that are asset-sensi-

tive must be careful. As rates rise, depositors will look for alternative investments, leaving them needing to find pricier replacement funding, "Banks are never as asset-sensitive as they think they are," says Jason Goldberg of Bard-Java Canital.

Banks that are alert to the problem of interest-rate risk can also be surprised by the effects of changes in monetary policy. When a central bank begins to raise overnight rates, the yield curve generally flattens. In 1994, however, long rates rose by more than short rates for a while, clobbering investors who had positioned themselves wrongly.

# Buttonwood The very long view

For investors, much depends on when you put your money in

IT IS all too easy, given today's 24-hour news cycle, to become obsessed with short-term movements in financial markets. But investors must learn to focus on the long term.

The final return of an equity investors is highly dependent on when he starts to put money in. In real (inflation-adjusted) terms, Bittish equity prices reached peaks in 1906, 1936, 1936, 1968 and 1999, according to the Barcalays Capital Equity-Citist study. The regularity of the intervals between these summits is remarkable and will undoubtedly encourage believers in "long wave" theories Wall Street's peaks, in real terms, occurred in 1928, 1968 and 1999). The patterns suggest that each generation discovers a passion for equity investment that is followed by disappointment.

Strikingly the recent year-end trough in this inflation-adjusted index, in 2008, was only fractionally higher than the peak in 1966. Howestors had made no capital gains in real terms over 40 years duting though, of course, they had enjoyed the benefits of a dividend income throughout this period. But this long drought was far from unique. At the British economy's nation 1974, the end of the type-day week, equities traded for just 30% of their real value at the end of the type-day week equities traded for just 30% of their real value at the end of the syth centry.

When markets are booming, however, commentators tend to look back at the performance of stocks and extrapolate an even rosier future. In 1929 John Raskob, a director of General Motors, wrote an article in the Laddes' Home journal entitled "Everybody Ought to Be Rich". Mr Raskob accludated that an investment of just \$5 a month would, with dividends reinvested, grow into \$50,000 after 20 years.

In the mid-1990s Jeremy Siegel of the Wharton School produced "Stocks for the Long Run", an impressive work of scholarship showing that American equities



had outperformed other asset classes over all 20-year periods. This insight was extrapolated by James Glassman and Kevin Hassett into a book called "Dow 36,000", based on the idea that equities should trade at much higher valuations given that they were no more risky than bonds for long-term investors.

In the event, the "noughties" decade produced average real returns (including income) of -2.2% a year from American equities and -1.2% a year from British shares. Over the 20 years to the end of 2009 American equities barely beat government bonds, and British shares lagged gilts.

of course, it was the belief in ever-rising share prices that pushed stockmarket valuations to absurd levels and thus ensured subsequent underperformance. A similar process happened in Japan in the 1980s. Share prices in Tokyo are still trading at only a quater of their 1989 peak levels.

The obvious parallel is with house prices. Analysts were convinced that American house prices might suffer regional busts but would not fall at the national level. The idea of housing as a oneway bet fuelled the boom in subprime lending and pushed prices up to a peak from which they could only fall. Robert Shiller of Yale University has pointed out that, in real terms, an index of American house prices rose from 100 in 1890 to 110 by the end of the 20th century. By the end of 2006, at the top of the housing boom, the index had reached 190.

Are these preferences for asset classes driven by some underlying factor, rather as John Maynard Keynes argued that practical men were often slaves to the writings of some "defunct economist"? Tim Bond of Barclays Capital argues that demography may be to blame. The key "saving age" is the cohort of 35-54 yearolds. As they prepare for retirement, they pile into the asset class du jour. Mr Bond shows that since the second world war there has been a close correlation between American equity valuations and the proportion of 35-54 year-olds in the population. That the "noughties" proved to be a dismal decade for equities was hardly surprising. The number of retirees (who run down their portfolios) was rising relative to the number of savers.

The bad news is that the demographic maths imply that equity valuations will continue to fall until the middle of this decade. The news is even worse for government bonds. A similar model suggests that yields in both America and Britain are heading for 10% by 2020.

So demography drives investment fashion, and fashion determines valuations. In turn the long-term return is crucially dependent on the starting valuation. American equities now offer a dividend yield of just 2%, less than half the long-term average. Investors should remember that salutary statistic whence they are templed to get too bullish.

Economist.com/blogs/buttonwood

The outlook for market rates is even more uncertain now because massive liquidity support has taken economies into uncharted waters. After amassing over \$1 trillion of mortgage securities, the Fed will stop buying them at the end of March. Some think mortgage rates will leap by a full percentage point as a result, making life more difficult for borrowers. Others disagree. All worry that the eventual sale of these securities could wreak havoc.

Most banks would still place interestrate risk some way down their list of priorities. Bad loans remain their top worry, underlined by news this week that the number of banks on the Federal Deposit Insurance Corporation's "problem" list had jumped to 702, its highest level in 17 years. A sharper-than-expected fall in consumer confidence reinforced the chances that rates will be left on the floor for many more months. But when they do rise, they will trip up more than a few banks.

#### Chinese banks

### Hole sale

Capital calls by Chinese financial institutions elicit questions

THE bill for China's bank-lending spree is coming due. An announcement on February 23rd by China's fifth-largest lender, the Bank of Communications (BoCom), of a 42 billion yuan (\$6.15 billion) rights offering, created a stir in Asian financial markets-not because it was unexpected, but because it represents the biggest fund-raising effort by a mainland company since the heady days of 2007.

The move follows similar announcements by two other Chinese financial institutions, the Bank of China and China Merchants Bank. Smaller institutions have also been busily raising money, either through initial public offerings or direct placements to state-owned industrial companies. All told, some 200 billion-250 billion yuan has been raised in the past six months, according to Bill Stacey, an analyst with Aviate Global, a Hong Kong

brokerage firm. At the very least the monev is needed to offset a massive lending boom last year. To augment stimulus spending by the central government, China's state-controlled banks expanded their balancesheets by one-third, or almost 10 trillion yuan. An increase in loans inevitably requires an increase in capital in Short-selling rules

### Shackling the scapegoats

American regulators approve long-awaited restrictions on short-selling

THE main cause of the financial crisis may have been reckless optimism, but the pessimists are hardly being hailed as heroes. When stockmarkets tumbled in 2008, short-sellers-those who borrow shares and sell them in the hope of buying them back later at a lower price, thereby profiting from a fall in their value-were cast as villains. Politicians have wanted to clip their wings ever since. On February 24th, after a year-long debate, America's Securities and Exchange Commission (SEC) responded with fresh curbs on shorting.

The restrictions will be triggered when a stock has fallen by 10% or more in one day. At that point, short-selling would be allowed only if the sale price is above the best available "bid" in the market. This provision could affect a fair number of shares-4% of the market on an average day, and much more in turbulent times, the commission calculates.

The rule falls short of a full reintroduction of the "uptick" rule that some had called for. That restriction, which was repealed in 2007 (just before the crisis erupted), covered all stocks, not just those under severe pressure, and allowed shorting of a share only when its last price move had been upward.

Despite being a compromise, the new rule is controversial within the SEC. Two of the five commissioners voted against it. One of the dissenters, Kathleen Casey, complained that the move was guided "less by empirical analysis and more by

public relations" and that "we should resist the urge to act merely to say we have acted." Some will see this as a reference to the huge political pressure the commission has faced to crack down on short-sellers, while others will see it as a dig at Mary Schapiro, the commission's newish chairman. Ms Schapiro has spent her first year in the job trying to rush through a bunch of new initiatives to counter criticism that the SEC lacks spine.

There are reasons to doubt that the new rule will be effective. Studies suggest that temporary bans on the shorting of financial shares in late 2008 had little if any impact. More worryingly, curbing shorts could harm the market integrity and efficiency that Ms Schapiro claims to want to promote. Short-sellers increase market liquidity. They also play a crucial role in fingering firms with dodgy finances-think Enron or Lehman. Manipulative shorting (for instance, by borrowing non-existent shares) is different, but the SEC has already outlawed that.

Awkward compromises are the order of the day in financial reform, however. A bigger example is the mega-bill that is currently grinding its way through the Senate. Having already seen its cherished consumer financial-protection agency come under fire, the White House now reportedly faces the prospect that its proposed ban on proprietary trading (the "Volcker rule") will be watered down. too. Short-sellers are not the only ones who are getting squeezed.

order to maintain prudent buffers. When expansion of credit occurs gradually, this can come from reinvested profits. When lending explodes as it did in China, fresh funds are a necessity.

By raising money, BoCom's core Tier-1 capital ratio will jump from a barely adequate 8% to more than 10.4%. Believers in

China's banking system will say this not only fills the capital hole but creates room for yet more

growth ahead. Sceptics will lean toward another conclusion, wondering whether the capital boost is an effort to get ahead of a massive surge in bad debts that will emerge from the remarkable surge in credit last year.

There is no hard evidence yet for this concern. Quite the opposite. Ratios tied to non-performing loans held by Chinese banks have been improving. But that is arguably a worry in itself: turbocharged credit creation rarely, if ever, comes without a cost. Anecdotal reports abound that regulators are requiring banks to put aside reserves for as much as 200% of non-performing loans, an egregious amount unless the underlying accounts are suspect.

Such opacity in book-keeping may have been common several years ago, say the system's supporters, but is less feasible now because Chinese banks have been listed on exchanges, and so answer not only to the Chinese government but also to shareholders, who would not permit credit to be subject to political goals. Reports this week that Chinese banks have been told by their regulators to lend more to small businesses and less to the financing arms of local governments suggests that the truth is rather different.

### **Economics focus** Low definition

Trustbusters want to put less emphasis on market definition when assessing mergers



WHAT line of business are you in? It is hard for a lot of people to answer this question with a straight face. As tasks become more specialised and firms occupy ever-smaller market niches, job titles and business categories can sound comically obscure. It is a source of embarrassment for antitrust agencies, too. To assess whether there is a enough competition in a market. trustbusters must first decide what the market is. The results can be risible. For instance, Britain's Office of Fair Trading (OFT) said this month that the purchase of a job-lot of theatres by the Ambassador Theatre Group did not raise competition concerns. The OFT's definition of the relevant market in this case (the "provision of regional theatres for medium-scale national touring productions") is unlikely to be found on anyone's business card.

Some economists doubt whether defining a market is useful at all when judging marriages between very specialist firms. The issue has a growing saliency because America's trustbusters are currently rewriting the guidelines for "horizontal" mergers (tieups between firms that offer the same sorts of products). The update is partly an exercise in good housekeeping: the current guidelines were written in 1992 and do not reflect advances in economic theory and changes to actual practice since then. It is also an opportunity for American policymakers to shift the analysis of mergers away from an obsession with "structure"-the size of the combined market share of merging firms-to focus instead on how big a constraint each firm is on the other's pricing.

The emphasis on structure in the current guidelines is a legacy from another era. Trustbusters used to worry most about the scope for firms making standardised products in concentrated markets to arrive at an unspoken agreement on prices. In principle a merger in such a market supplied by, say, just five firms might harm competition. After the tie-up the four remaining firms would find it much easier to monitor the others' prices than before. This could lead to a cosy arrangement where each firm is less inclined to compete on price.

In practice, the conditions for such tacit collusion are quite rare. Incumbents would have to be safe from challenge by new entrants. They would also have to sell similar products at similar margins. Otherwise there is the temptation for the firm with the lowest costs, or the best products, to break ranks and steal market share from others. Because these conditions are so specific, trustbusters fret less and less about the "co-ordinated effects" of mergers and more about the "unilateral effects"-the loss of competition between merging partners.

The focus on market definition has nevertheless made it harder for trustbusters to stand in the way of some mergers. In June 2007 America's Federal Trade Commission (FTC) applied to the courts to stop the tie-up between Whole Foods and Wild Oats, two upmarket food retailers. At the time Whole Foods and Wild Oats had around 300 shops, a small fraction of the 34,000 supermarkets across America. The FTC argued that the relevant market was "premium, natural and organic supermarkets". The court thought that definition was much too narrow: didn't less fancy outlets, such as Safeway, also sell organic food? It denied the FTC's request. The appeals court later ruled that the two firms were far closer competitors with each other than with more humdrum stores, but by then the merger had been consummated.

The case highlights a flaw in using a market definition to frame a competition concern. The FTC's narrow definition played up the likely effect on prices from the loss of that rivalry but ignored the more distant challenge from ordinary supermarkets. But defining the market broadly as "all supermarkets" would have exaggerated the pressures faced by both firms.

If market-share analysis can be a poor guide to the likely effect of mergers on prices, what might be put in its place? One suggestion\* comes from Joseph Farrell and Carl Shapiro, two professors at the University of California, Berkeley, who happen also to be the chief economists at the FTC and the antitrust arm of the Department of Justice (DOJ) respectively. They advocate a measure of "upward pricing pressure" (UPP) as a screen for judging the probable impact of a merger.

Their gauge provides an estimate of the benefits of keeping the two merger candidates apart. These benefits depend on how many consumers switch between the two firms when one of them cuts prices (the diversion ratio). They also depend on how fat the profit margins are in the firm that loses custom, since that determines how much each consumer gains from switching. Multiplying the diversion ratio by the profit margin gives a measure of the lost benefits of competition should the firms merge. If this benefit is greater than a plausible estimate of the efficiency savings from the merger, then it should be halted.

#### Upp and away

This sort of approach, which is already used by Britain's OFT, has its critics. One concern is that diversion ratios are hard to measure in practice: trustbusters sometimes have to rely on consumer surveys, which can be unreliable. Another fear is that the use of UPP and the like will give trustbusters too much leeway to block mergers that might benefit consumers. A third worry is that the UPP gauge ignores the effect of third parties who may be only slightly less close competitors to the merging firms than they are to each other. The market-share measure of competitive pressure also has all the advantages of incumbency: American legal precedents are built upon it and judges find it a useful check. But changes are needed and the horizontal-merger guidelines, the most cited antitrust document of all, are the best place to start.

<sup>\* &</sup>quot;Antitrust Evaluation of Horizontal Mergers: An Economic Alternative to Market Definition" by Joseph Farrell and Carl Shapiro, February 2010. http://faculty.haas.berkeley.edu/shapiro/alternative.pdf

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Climate and combustion

#### Fired up

This year's meeting of the American Association for the Advancement of Science looked at, among other things, fire, siestas, alien life and nuclear forensics

ALIFORNIA, though regarded by some as one of the more civilised parts of the world, is prey to wildfires, Last August, for example, a fire took hold to the north of Los Angeles. Over the course of almost two months it devoured 65,000 hectares (160,000 acres) of chaparral and forest, destroved 89 houses and claimed the lives of two firefighters. Over the past few years other parts of the American west have burned in similar fashion, Australia, too, saw serious fires last year. The question on many people's minds, therefore, is whether such fires are becoming more common, and if they are, whether that is a result of climate change.

To examine this question (and many others, in many fields of scientific endeavour) the American Association for the Advancement of Science (AAAs) held its annual meeting this year in San Diego. On February 19th a session was devoted to the environmental role of fire. It brought together palaeontologists and ecologists, as well as climate experts, because fire is a natural and useful part of both past and present ecosystems-a fact that human fire controllers have only reluctantly come to recognise in their zeal to snuff out any

blaze as soon as possible.

The role of small, frequent fires in clearing out the undergrowth so that larger, treedestroying ones will not eventually take hold is now understood. But fire is good-or, at least, necessary-in other ways. Most notably, as Jon Keeley, an ecologist at America's Geological Survey, pointed out to the meeting, the seeds of between 100 and 150 species of Californian wild flower germinate in response to smoke. They may sit dormant for hundreds of years waiting for a fire. When one has passed, they leap into action to blossom in the clearing that the fire has created.

#### Prometheus's gift

That fact alone-that species have adapted to fire and turned it to their advantageshows that fire is a longstanding part of the natural environment. Just how longstanding can be seen in the rocks. Deposits of charcoal show that the chanarral-like shrub lands roamed by dinosaurs were periodically disturbed by fires. Fire also had a hand in the success of a recently evolved group of plants, the grasses. The spread of grass, starting roughly 10m years ago, was greatly aided by fires culling trees in areas that might, on the basis of their soils and ambient temperatures, have been expected to support woodlands. That is true even today. Fire is the grassland's friend and the forest's foe.

Thomas Swetnam is a dendrochronologist at the University of Arizona-in other words, he studies the recent past through the medium of tree rings. Some of those rings are in wood that has been preserved as charcoal. Others show evidence of carbonisation in passing fires that the tree containing them has survived. Such "fire scars" in long-lived species like giant sequoias allow him to estimate the past frequency of forest fires. Dr Swetnam's work suggests that variations in temperature were well correlated with the frequency of fire during what climatologists call the medieval warm period, from 900 to 1300. More generally, he says, the incidence of large fires seems linked with warming trends and droughts in parts of Canada and the western United States, as well as Australia, Siberia and the Mediterranean.

Meg Krawchuk of the University of California, Berkeley, though, warned the meeting that such an analysis could be misleading if extrapolated planet-wide and into the present day. First, the evidence is not derived from a random global sample (it tends to come from countries with a well-established scientific tradition). Second, it represents a period when patterns of rainfall could have been very different. In an attempt at a more systematic appraisal of the global fire risk, Dr Krawchuk has been trying to build a model that explicitly includes all the factors that create fires. >>  With this, she proposes to create a "pyrogeography" of the Earth—a spatial analysis of fire across the planet.

Fires, she explained to the meeting, need three things fuel, which is related to the productivity of local vegetation; a source of ignition such as a lightning strike or a volcanic eruption; and a lack of moisture to make the fuel combustible, something that is linked to the seasons and the climate. These three factors can be combined to allow a fire "inche" to be mapped across the Earth's land surface. Dr Kraw-chuk has been looking at how this niche changes in response to shifts in the climate predicted by various models of the future.

Although the different models predict different details, they agree that the firer isk will change for about a quarter of the land surface. Some areas, notably parts of California and Australia, should expect to become more fire-prone. Land to the north of California, by contrast, is likely to see less fire because the amount of rain it receives

will increase.

What is likely is that a changing distribution of risk will increase fire's impact on both humanity and wildlife. From the human point of view, some places will be come more hostile, others less so. Work by people like Dr Krawchuk may allow these changes to be planned for. The same, minus the planning, applies to wildlife. Fire acts as an ecological filter it changes the structure of entire ecosystems. Even fireadapted species can cope only within limits. Dr Krawchuk has looked at how nature reserves around the world will fare. Like the land in general, she reckons a quarter will have to cope with big adjustments.

Of course the presence of humans themselves also changes the odds of fire, as people are a frequent source of ignition-both accidental and deliberate. The invasion of mankind into places where fires could thrive but do not, often leads to a dramatic increase. Clearing woodland by burning it is a trick almost as old as humanity itself, but the presence of man also increases a forest's susceptibility to fire. The evergreen forests of the Amazon and Congo basins, for example, are generally firefree because the closed canopy maintains a level of humidity that inhibits burning. Road-building and the clearance of patches of land by foresters and homesteaders breaks up the canopy's continuity, permits drying and encourages the spread of fire over and above the extra risk of ignition that humans, the one species to master fire, bring with them.

What some master, though, enslaves others. The human fascination with fire has a Manichean quality. Last year's Los Angeles wildfire was neither an accident of nature nor an act of human carelessness. It was set deliberately by an arsonist. Factoring that sort of behaviour into the models is the hardest thing of all.



How siestas help memory

# Sleepy heads

SAN DIEGO

Researchers say an afternoon nap prepares the brain to learn

AD dogs and Englishmen, so the song M has it, go out in the midday sun. And the business practices of England's lineal descendant, America, will have you in the office from nine in the morning to five in the evening, if not longer. Much of the world, though, prefers to take a siesta, And research presented to the AAAs meeting in San Diego suggests it may be right to do so. It has already been established that those who siesta are less likely to die of heart disease. Now, Matthew Walker and his colleagues at the University of California. Berkeley, have found that they probably have better memory, too. A post-prandial snooze, Dr Walker has discovered, sets the brain up for learning.

The role of sleep in consolidating memories that have already been created has been understood for some time. Dr Walker has been trying to extend this understanding by looking at sleep's role in preparing the brain for the formation of memories in the first place. He was particularly interested in a type of memory called episodic memory, which relates to specific events, places and times. This contrasts with procedural memory, of the skills required to perform some sort of mechanical task, such as driving. The theory he and his team wanted to test was that the ability to form new episodic memories deteriorates with accrued wakefulness, and that sleep thus restores the brain's capacity for efficient learning.

They asked a group of 39 people to take part in two learning sessions, one at noon and one at 6pm. On each occasion the participants tried to memorise and recall 100 combinations of pictures and a names. After the first session they were assigned randomly to either a control group, which remained awake, or a nap group, which had 100 minutes of monitored steen.

Those who remained awake throughout the day became worse at learning. Those who napped, by contrast, actually improved their capacity to learn, doing better in the evening than they had at noon. These findings suggest that sleep is clearing the brain's short-term memory and making way for new information.

It is already well known that fact-based memories are stored temporarily in an area called the hippocampus, a structure in the centre of the brain. But they do not stay therelong, instead, they are sent to the prefontal cortex for longer-term storage. Electroencephalogams, which measure electrical activity in the brain, have shown that this memory-refeshing capacity is related to a specific type of sleep called Stage 2 non-REM sleep.

The ideal nap, then, follows a cycle of between 90 and 100 minutes. The first 30 minutes is a light sleep that helps improve motor performance. Then comes 30 minutes of stage 2 sleep, which refreshes the hippocampus. After this, between 60 and 90 minutes into the nap, comes rapid-eye-movement, or REM, sleep, during which dreaming happens. This, research suggests, is the time when the brain makes connections between the new memories that have just been "downloaded" from the hippocampus and those that already exist—thus making new experiences relevant in a wider context.

The benefits to memory of a nap, says Dr Walker, are so great that they can equal an entire night's sleep. He warns, however, that napping must not be done too late in the day or it will interfere with night-time sleep. Moreover, not everyone awakens re-

freshed from a siesta.

The grogginess that results from an unrefershing stess is termed 'deep inertia'. This happens when the brain is woken from a deep sleep with its cells still firing at a slow rhythm and its temperature and blood flow decreased. Sara Mednick, from the University of California, San Diego, suggests that non-habitual nappers suffer from this more often than those who siesat regularly. It may be that those who have a tendency to wake up groggy are choosing not to siest as in the first place. Perhaps, though, as in so many things, it is practice that makes perfect. Looking for ET

# Signs of life

CAMPTEC

As the search for alien life turns 50, its practitioners find new methods

ALF a century ago a radio astronomer Half a century ago a race.

Called Frank Drake thought of a way to calculate the likelihood of establishing contact with aliens. He suggested the following figures should be multiplied: how many stars are formed in the galaxy in a year; what fraction of these have planets and thus form solar systems; the average number of planets per solar system that have the potential to support life; on what percentage of those where it is possible do such biospheres actually form; what percentage of such biospheres give rise to intelligent species; what percentage of intelligent life is able to transmit signals into space; and for how long could such intelligence keeps sending signals.

This calculation became celebrated as the Drake equation—perhaps the best attempt so far to tame a wild guess. Most of the terms remain hard to tie down, although there is a consensus that about ten stars are formed per year in the galaxy. Also, recent searches for extrasolar planets have concluded that planets are not rare.

At the AAAS, Dr Drake reflected on his search for alien signals. One reason this is a search for alien signals. One reason this is hard is that radio telescopes must chop the spectrum into fine portions to study it, like tuning into a signal on a car radio. Another is the trade off between a telescope's field of view and its magnification. Small telescopes see alo to fisky but can detect only strong signals. Large ones, which can detect weak signals, have a narrow focus. Astronomers therefore have difficulty look in both carefully and comprehensively.

Dr Drake said there may be another difficulty. Researchers tend to look for signals similar to those now made by humanity. The Earth, though, is getting quieter because the rise of spread-spectrum communication makes stray emissions less likely than in the past.

Spread-spectrum works by smearing a message across a wide range of frequencies. That has the advantages of combating noise and allowing namy signals to be sent at once. But it also makes those signals hard for eavesdroppers to hear (which is why spread-spectrum is beloved by military men.) If technologically sophisticated aliens came to the same conclusions, and thus used spread-spectrum technology, humans would have a hard time hearing them. Dr Drake suggests, therefore, that there might be only a narrow window of time in the development of civilisations, analogous to the past 50 years on Earth,

during which noisy electromagnetic sig-

It is, however, also possible that someone is actively trying to send signals to the Earth. If that were the case, the best way to do this, reckons Paul Horowitz, a physicist at Harvard, is with a laser.

Although radio power has changed little over the decades, the power of lasers has grown exponentially. Today's most powerful versions can shine tent thousand times brighter than the sun, though only for a billionth of a second. If a liens have made similar progress, and point a laser towards the Earth's solar system, such brief flashes would be detectable at a distance of many light-years. Dr Horowitz has already set up one suitable detector and this, because no huge magnification is involved, is capable of looking at broad swathers of sky.

There is also potential for improvement on the radio side. For many years, the Arecibo telescope in Puerto Rico, which is 300 metres across, has led the search for alien life. (Sadly, its founder, William Gordon, died on February 16th.) Now the Chinese are building a 500-metre telescope, known as FAST, in Guizhou province, and an international collaboration called the Square Kilometre Array is trying, as its name suggests, to build a grid of radio-telescopes over a square kilometre of land in either South Africa or Australia, Both may be helpful. As indeed may a large new telescope in northern California built by Paul Allen, a co-founder of Microsoft.

Many of the terms in the Drake equation are likely to remain elusive, so it is still impossible to predict how likely such efforts are to succeed. But even after 50 fruit-less years—if the eagerness in the eyes of Drake and his colleagues is any guide—it still is fun looking. ■



Speak to me!

# A weighty matter

SAN DIEGO

**Nuclear forensics** 

How to analyse smuggled uranium

BETWEEN 1992 and 2007, according to Ian Hutcheon of the Lawrence Livermore National Laboratory, in California, 17kg of highly enriched uranium was seized from smugglers around the world, along with 400 grams of plutonium. In neither case is that enough for a proper atom bomb, but it is still worrying. Presumably, more is out there. Even if it is not, the material that has been found could have been used to make a "radiological" weapon, by blowing it up and scattering it around a city using conventional explosives. Dr Hutcheon is one of those charged with analysing this captured material, to discover how dangerous it really is and where it came from-and thus whether it has been stolen from legitimate nuclear projects or made on the sly. At the AAAS meeting in San Diego, he showed off some of the tricks of his trade.

His main tool is a device called a secondary-ion mass spectrometer. This measures the flight path of ions (electrically charged atoms) through a magnetic field. The lighter an ion is, the more the field bends its trajectory. The spectrometer can thus distinguish between, say, "3"U (the fissile sort, from which bombs are made) and "3"U (which has three extra neutrons in its nucleus and is much less fissillo. Natural uranium has only seven atoms per thousand of the former. Weapons-grade uranium in 95% "3"U. The "depleted" uranium used in armour-penetrating shells, by contrast, is almost pure "9"U.

Uranium that has been in a reactor, though, has other isotopes in it, and and and to fee cample. The quantities of these, plus isotopes of elements such as plutonium that are also created in reactors, vary from one reactor to another. The isotopic signature is changed, too, by the centringes used to separate and from any during the process of enrichment, and radioactive decay after processing creates yet further elements that can be detected this way. These gives some idea of a sample's age.

The result is a profile that is often characteristic of a particular type of reactor or centrifuge, and sometimes of an individual machine—and can also indicate how long ago the processing took place. That enables the good guys to improve security in the case where something has been pinched, the bad guys to be admonished if they have been up to something they should not have been doing, and everyone lest to sleep more easily in their beds. ■



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#### China's roads

### A voyage of discovery

A reporter who explored China's bigger and lesser roads and found treasure

OADS, and with them cars, are chang-King China faster than any dictat from the Politburo. Within a few years a motorway network has been built that is fast catching up with the length of America's interstate highways; China has already overtaken America as the world's biggest car market. Yet most foreigners, even longterm residents, have glimpsed this only partially. They curse the gridlock of Chinese cities caused by a new middle class hitting the roads in ballooning numbers, and at the maybem these reckless novices create. They bemoan the transformation of rural peripheries by businesses catering to day-tripping car-owners: guesthouses, restaurants and theme parks. They fret about the fumes.

But Peter Hessler gets behind the wheel and explores the furthest reaches of this phenomenon. Few other foreigners have toured China's highways so extensively. Non-residents are usually not allowed to drive, and among foreigners living in China there is often a reluctance to risk roaming far: the country's roads are among the world's deadliest.

Mr Hessler was working for the New Yorker and the National Geographic when he researched this book. It is his third about China, a series launched in 2001 with "River Town", a memoir of his time as a Peace Corps teacher. "Country Driving", like his previous works, tells the story of China's transformation powerfully and poetically.

Country Driving: A Journey Through China from Farm to Factory. By Peter Hessler. Harper Collins; 432 pages; \$27.99. Canonaate: £14.99

The first part of the book is about driving along the Great Wall, or what is really a series of walls, in a Beijing-made Jeep Cherokee. In 1923 an article in a Shanghai newspaper proposed, apparently seriously, that the wall be converted into a road to "make it easier to do business" across the breadth of China. Today such a notion would be heresy, the wall having been decreed by the Communist Party to be a sacred symbol of Chineseness.

But Mr Hessler's journey along it (as best he could since there is no road that runs the entire length) is not a fulfilment of a Chinese fantasy such as Americans once harboured about Route 66. Long-distance driving is even less a Chinese middle-class pursuit than it is for foreign residents. The people Mr Hessler meets along the wall are mostly poor Chinese who dream of getting away from the impoverished countryside traversed by the ancient structure.

China, though a frantic builder of roads, has little road culture. Map-reading is a rare skill, and not one that is encouraged by a government obsessed by cartographic secrecy. As Mr Hessler describes it, when lost the worst thing to do was to show people a map. Doing so, he says, was like "handing over a puzzle to a child-people's faces went from confusion to fascination as they turned the map this way and that, tracing lines across the page." Mr Hessler did not use a GPS device since he was worried that he might be accused of carrying out illegal surveying work (though this reviewer has found Chinese GPS technology an invaluable aid to exploring off the beaten track).

In the rest of the book Mr Hessler immerses himself in the lives of ordinary Chinese at opposite ends of what he calls the biggest migration in human history. He begins in a village outside Beijing close to the Great Wall, and ends in a factory town in the eastern province of Zhejiang (in this province factories come first and roads later, Mr Hessler notes). Roads weave in and out of his narrative, but the focus is on the lives of a handful of individuals among whom Mr Hessler builds up extraordinary trust. The reader becomes a fly on the wall in the village's political infighting and in the fraught relationship between factory bosses and migrant workers.

Foreign correspondents rarely have time as they explore China's vastness to return to places where there is little going on that seems worthy of a headline. Mr Hessler, however, keeps going back and in so doing fills an important gap in media coverage of the country. Through the lives of the ordinary Chinese he gets to know so well, he explains the country's complexity. insecurities and tensions better than many of the more analytical works that have anpeared in recent years. As he observes at one point, when he uncharacteristically fails to probe deeply into the sufferings of people displaced by a dam project; "I felt like a drive-by journalist, listening to sad stories before I got back on the expressway." Many a foreign reporter in Beijing would rightly wince at that apology.

**How East Timor became Timor-Leste** 

## A country's agonising birth

"If You Leave Us Here, We Will Die": How Genocide Was Stopped in East Timor. By Geoffrey Robinson. Princeton University Press; 317 pages; \$35 and £24.95

FEW countries have suffered as much, merely to be counted as countries, as did Timor-Leste, the former Indonesian province of East Timor, Under the Indonesian occupation from 1975 to 1999, perhaps one-third of the population died before their time. Survivors suffered hunger, deprivation, torture and systematic terror. Against the odds, on August 30th 1999 the Fast Timorese found themselves with the chance of a vote to choose between independence or autonomy under Indonesian rule. Turnout was 98.6%. Of those, four in five voted for independence.

The author of this fine book, Geoffrey Robinson, was there that day, as a member of the United Nations mission that organised the poll. Before that, as an academic and human-rights researcher, he was one of a small doughty band of foreigners who helped keep East Timor alive as an international issue, at a time when most governments preferred to cultivate good ties with Suharto, Indonesia's dictator.

Mr Robinson was also there in the nightmarish aftermath of the referendum: as Indonesian-sponsored militias trashed the country, hundreds died and terrified refugees took shelter in the UN compound in Dili. That period provides the book's title. "If you leave us here, we will die," was what a Timorese woman in the compound told a visiting UN delegation.

But in fact the title sells both East Timor and the book seriously short. That a second genocide was averted in the country should not conceal the ugly truth that the outside world ignored and connived at the first, in the terrible years after Indonesia's invasion. And the title misrepresents the book because, though enlivened by the narrative of Mr Robinson's own time as a participant in and evewitness to the events described, it is also a subtle and nuanced work of history and analysis.

It contrasts the way the world looked the other way in 1975 with the swift intervention by an Australian-led peacekeeping force in 1999. That was in part a consequence of press attention, the courage of the East Timorese and a unique, brief period in history when "liberal interventionism" seemed to have a future. It also owed something to a collective sense of guilt over past atrocities in Srebrenica, Rwanda and East Timor itself.

As for Indonesia, the behaviour of its



Ready to die for freedom

soldiers and their local allies was sadly not an aberration. The outcome was predictable as soon as the flawed UN mandate put the security for the referendum in the hands of the main threat to it; the Indonesian army. Mr Robinson traces the violence back to the Suharto regime's original sin, the massacre of hundreds of thousands as it took power in 1965-66.

The strategies of violence, he notes, were "implicitly legitimised", not just because of the state's involvement, but because the criminals were never punished. Ten years on not a single Indonesian official has been convicted of any crime in East Timor, and the idea of an international tribunal has been, in effect, ditched.

New York low life

## Bottoms up

Reporting At Wit's End: Tales from The New Yorker. By St. Clair McKelway. Bloomsbury; 619 pages; \$18 and £10.99

WHEN she learned that the bank was about to foreclose on her mortgage, Katherina Schnible, a slightly lame 72year-old, remained in her third floor apartment in a little frame house in Brooklyn, refusing to open the door to anybody but her son. Then came the day when she heard a heavy footfall on the first landing, heard somebody running frantically up the first flight of stairs, heard a man's voice shouting something. The footsteps came closer and then, right outside her door, the voice velled "Fire!" Mrs Schnible opened her door and hobbled into the hall, "Hello, Mrs

Schnible," said the man standing there. "Here's a summons for you."

The man on the stairs was Harry Grossman, the "champion process-server of all time", and the story is among countless told to readers of the New Yorker by St. Clair McKelway, a wry observer of the city's low life, from the 1930s into the 1960s. A reporter of the old school, McKelway was never portentous and rarely judgmental. As Adam Gopnik, a current writer for the New Yorker, shrewdly notes in his introduction to this collection of essays, he was not at all interested in trends; in the idea that more and more people were acting this way. Instead the classic McKelway piece says: "Very, very few people act this way, which is what makes the ones who do so interesting."

In these essays they include the good as well as the bad. A beat cop interprets the force's shop talk for McKelway: his shift is a tour, his uniform a bag, his winter overcoat a benny, an influential friend a rabbi and his wife, even to her face, the cook. Firebugs substitute old nags for thoroughbred horses before they set stables alight and then claim for valuable horseflesh from the insurers. A counterfeiter of banknotes cannot spell and renders the first American president as "Wahsington". Yet for 20 years he gets away with passing off his funny money because he never succumbs to greed. He spends only a few dollars at a time and at different locations.

All these stories are lucid, McKelway was often not. His fondness for booze helped ruin his five marriages and even worried his colleagues on the New Yorker, which is saying something. On joining the magazine, Brendan Gill, a contemporary, noticed that everybody there seemed to be feeling sick. "Later, I learned that many of them were sick with hangovers of varying degrees of acuteness."

It was McKelway's good fortune to be tutored by Harold Ross, the editor of the New Yorker from 1925 to 1951. Like so many of his staff, Ross maintained the highest standards of journalism while sinking awesome amounts of liquor, His editing precision was legendary and he was so literal-minded that he even corrected literary quotations. In revising a piece that quoted Tennyson, for instance, he altered "nature red in tooth and claw" to "nature red in claw and tooth", reasoning that a predator's claws would be bloodied before its teeth, Ross insisted that "nothing was indescribable": that the most complex idea or gizmo could be made intelligible.

This exactness of observation and fascination with detail runs through McKelway's essays. So does an acceptance of human frailty. As a sinner himself, McKelway tolerates, almost celebrates, the sins of others. He can only smile when the wife of an embezzler says: "Well, he's a very fine man except for that one quirk."

University education in America

# Professionalising the professor

The Marketplace of Ideas: Reform and Resistance in the American University. By Louis Menand. Norton; 174 pages; \$24.95 and £17.99

TsHIS subtle and intelligent little book should be read by every student thinking of applying to take a doctorate. They may then decide to go elsewhere. For something curious has been happening in American universities, and Louis Menand, a professor of English at Harvard University captures it defity.

His concern is mainly with the humanties: literature, languages, philosophy and so on. These are disciplines that are going out of style: 22% of American college graduates now major in business compared with only 2% in history and 4% in English. However, many leading American universities want their undergraduates to have a grounding in the basic canno of ideas that every educated person should possess. But most find it difficult to agree on what a "general education" should look like. At Harvard, Mr Menand notes, "The great books are read because they have been ead"—they form a sort of social glue.

One reason why it is hard to design and teach such course is that they cut across the insistence by top American universites that liberal-arts education and professional education should be kept separate, taught in different schools. Many students experience both varieties. Although more than half of Harvard undergraduates end up in law, medicine or business, future doctors and lawyers must study a non-specialist liberal-arts degree before embarking on a professional qualification.

Besides professionalising the professions by this separation, top American universities have professionalised the professor. The growth in public money for academic research has speeded the process: federal research grants rose fourfold between 1960 and 1990, but faculty teaching hours fell by half as research took its toll. Professionalism has turned the acquisition of a doctorate into a prerequisite for a successful academic career: as late as 1969 a third of American professors did not possess one. But the key idea behind professionalisation, argues Mr Menand, is that "the knowledge and skills needed for a particular specialisation are transmissible but not transferable." So disciplines acquire a monopoly not just over the production of knowledge, but also over the production of the producers of knowledge.

No disciplines have seized on professionalism with as much enthusiasm as the humanities. You can, Mr Menand points out, become a lawyer in three years and a medical doctor in four. But the median imme-median-los doctoral degree in the humanities is nine years. (Advertising note to American students; you can get a perfectly good rho at a top British university in under four years.) Not suprisingly, up to half of all doctoral students in English drop out before getting their degrees.

and a possible service of the servic

The key to reforming higher education, concludes Mr Menand, is to alter the way in which "the producers of knowledge are produced". Otherwise, academics will continue to think dangerously alike, increasingly detached from the societies which they study, investigate and criticise. "Academic inquiry, at least in some fields, may need to become less exclusionary and more holistic." Yet quite how that happens, Mr Menand does not say. In reality, baby and bathwater may go out together. Public exasperation with academic introversion may lead to a loss of some independence, the most precious right of academics in a free society.

#### A biography of Arthur Koestler

# Intellectual fireworks

Koestler: The Literary and Political Odyssey of a Twentieth-Century Skeptic. By Michael Scammell. Random House; 689 pages; 335. Published in Britain as "Koestler: The Indispensable Intellectual". Faber and Faber; 1226.

DNG before today's fashion for counterintuitive polemics, there was Arthur Koestler. An early Zionist who later tried to debunk the very notion of a Jewish people; a communist whose novel "Darkness at Noon" is one of the most powerful demolitions of communism ever written; a lover of science who later championed the paranormal; Koestler was one of the 20th century's most powerful and controversial intellectuals, whose works still shape our thinking. This is the first authorised biograthy of the Hungarian-Jewish writer and it



He loved man, not men (or women)

is a majestic achievement.

Michael Scammell, a biographer of Alexander Solzhenitsyn, was granted full access to Koestler's papers. He has distilled more than a decade's research to reconstruct not just Koestler's life but the era in which he lived, from the last years of the Austro-Hungarian empire to Palestine in the 1920s, the struggle against fascism in the 1930s and the post-war years of Koestler's anti-communism. Mr Scammell's style is lively and authoritative, and the stuff of Koestler's life is engrossing. He brings alive a sparkling walk-on cast including Jean-Paul Sartre, Simone de Beauvoir, George Orwell, Albert Camus and Cyril Connolly,

Mr Scammell is sympathetic to his subject but does not gloss over the less attractive aspects of Koestler's personality. Like many intellectuals who profess their love for humanity as a whole, Koestler had problems dealing with real human beings, especially women. He expected his girlf-ends and wives to serve as maids and secretaries. He would have nothing to do with his illegitimate daughter.

A short man, and a serial fornicator, koesler, it seems, used his conquests as a kind of self-validation. As his editor, Otto Rate, once told him: "We all have inferiority complexes of various sizes. But yours isn't a complex, it's a cathedral." Yet it was doubtless that inferiority complex, and the insattable hunger to be proven right, that fuelled Koesteft's intellectual fleworks.

Koestler's legacy has been tarnished by the claims in a biography by David Cesarani that he had raped Jill Craigie, a British film-maker and feminist. Mr Scammell examines this episode at some length. But his case for the defence the notes that Craigie did not mention the rape for almost 50 years until 1998 and that she and her hus-by

band Michael Foot, a senior Labour politician, lunched with Koestler at the House of Commons a week after the attack was said to have taken place) falters when he writes: "The exercise of male strength to gain sexual satisfaction wasn't exactly uncommon at that time...The line between consensual and forced sex was often blurred !

In the end, Koestler's darkness came not at noon, but some time on Tuesday March 1st 1983. He and his third wife Cvnthia overdosed on Tuinal sleeping tablets, washed down with brandy for him, and scotch for her. Wracked by Parkinson's disease and leukaemia, Koestler had long planned his exit from the world. His last, dark, achievement was to take his healthy wife with him. Even in death Koestler made sure to win the argument.

A Japanese silversmith

## Making waves

Pounding flat pieces of silver into beautiful vessels

HIROSHI SUZUKI'S work in silver is sensuous, beautiful and coveted. His pieces, hammered up and out from a single flat sheet of silver, have been praised for their "sublimely flowing" quality. No one else is doing anything like it.

His retrospective, "Silver Waves", is at London's Goldsmiths' Hall (though only until March 6th). Nearly all the 71 pieces on show are loans. They come from museums across the world; the (anonymous) private lenders include collectors from Hollywood, Wall Street and England's stately homes. The Goldsmiths' Company, which put on the exhibition, owns four pieces.

Mr Suzuki, who is 50, was born in Japan. His father and grandfather were craftsmen and he took a master's degree in design at Musashino Art University in Tokvo. In the early 1990s he decided to visit England, wanting a change from ways of working he found old-fashioned. In London he took a second master's degree, this time in metal work, at the Royal College of Art. It was there that he began using silver.

There is no tradition of large pieces of silver in Japan. He explains that the humid climate makes silver tarnish too quickly; it needs too much polishing. Perhaps it was this immersion in an alien medium that freed him to appreciate his own native gifts. He began to notice that when other students played with form, the results were stronger than his own efforts, "The Japanese are good at surface, texture and line," he says, "not so good at form." It took his tutors' encouragement to convince him that he should concentrate on his own tal-

Old men of the theatre

## The two Peters

A couple of productions that make a compelling case against ageism

SIR PETER HALL, a renowned director of Shakespeare's plays, has observed that the older you get, the more like yourself vou become. At 79, Sir Peter is demonstrating the artfulness of his own adage with a production of "A Midsummer Night's Dream" which is a concentrated version of his best work: loyal to the text, the verse, the romance and the humour of the play. To bolster Sir Peter's case, his fellow director Peter Brook, whom Sir Peter refers to as the stage's greatest innovator, is exhibiting his revolutionary credentials at 84 with "11 and 12", a moral tale set in Africa. Sir Peter's star is Dame Judi Dench, the

leading lady of the English theatre. It is 47 years since they first worked together on the "Dream", and the shared experience illuminates her performance as Titania, the Oueen of the Fairies. The verse is spoken with clarity and meaning and her lust is tempered by a mature woman's experience and affection. Dame Judi's Titania, richly dressed with a wig of flame-red hair, looks like the Virgin Oueen herself, as if Elizabeth is appearing as Titania in a court production of the play, a harmless little conceit.

Mr Brook once said of the work of Sir Peter's Royal Shakespeare Company in the 1960s that "its ideal was to do good things very well". His own inventive "Dream" for the RSC in 1970 was one of its finest productions, but he grew restless and left London for Paris, where he was happier as his own impresario, artistic director and dramaturge. He founded the Théâtre des Bouffes du Nord, tried to devise a universal language and, when that did not happen, explored theatrical traditions in India and Africa.

"11 and 12", set in Mali, is the story of two holy men who call for tolerance when a doctrinal dispute flares into violence and is exploited by French colonists. Everything, including the argument, is stripped down. The stage is decorated with red and yellow cloth; a Japanese musician accompanies the dialogue on drums, xylophone and strings. It is a modern version of a medieval mystery: a good thing done well.

"A Midsummer Night's Dream" is at the Rose Theatre, Kingston, Surrey, until March 20th. "11 and 12" is about to travel to New Zealand, Spain, Singapore, Australia, South Korea and Italy, with a return to Britain during April.

ents, "I found a way of seeing Japan from outside," he observes. For more than a decade he has worked with a single, symmetrical form. The vase became his canvas.

His very individual approach has led him to acquire or make an ever growing number of hammers and invent new tech-

Conversations with silver

niques. It has also required considerable bravery. Silver is expensive; hammering it demands great precision. Even so, and most unusually. Mr Suzuki does not make a plan or even a drawing. "If I did, there would be no reason to make the work," he says. "I want to enjoy how things develop." The price of silver keeps rising but, like a jazz musician, he keeps improvising.

A piece may require two, four or sometimes six weeks of constant hammering before it is finished. He approaches the work as a form of meditation. Nevertheless it is hard work. Pounding silver demands great physical strength. Here again, his outlook is unusual. "I think of the silver as being a soft, living thing," he says. "I talk to the material as if it were a person. I am kind and gentle with it."

Last year Mr Suzuki was invited to succeed his old professor at Musashino Art University. He now spends much of his time in Japan and his desire to have his art appreciated there is increasing. This may lead him to explore other metals-copper, perhaps, or gold. The solitary gold vase in the exhibition is radiantly elegant. The result of being home again works both ways: Japan and his enthusiastic students are also bound to influence him. He feels certain that he is about to start new work.



## **Alexander Haig**

Alexander Meigs Haig, soldier and public servant, died on February 20th, aged 85

RANT and Eisenhower aside, America is uneasy about handing civil power to soldiers; and from the very start of the Reagan administration, in 1981, there was nothing Al Haig could do to erase the impression that he wished to take over the country. At his confirmation hearings for the post of secretary of state he rode roughshod over his interrogators ("No one has a monopoly on virtue, not even you, senator"). He let slip that he wanted to be the "vicar" of foreign policy, a word with pope-size pretensions. The press pinned on him the word "arrogant", and never removed it. His picture appeared on the cover of Time, chin high and arms akimbo, above the words "Taking Command".

This portrayal was not without foundation. It was well known that in 1937-14, as Richard Nixon crumbled under the weight of Watergate, General Haig, then chief of Staff in succession to the disgraced H.R. Haldeman, kept the administration functioning. He advised Nixon how to deal with his enemies, and when to resign; he suggested to Gerald Ford that he should pardon his predecessor. His power was such that when Nixon appeared to ask him for a way out of his turmoil, "a pistol in the drawer", he immediately ordered the president's doctors to take away his nills.

Most of the time, however, though am-

bition burned through him like a fire, he had no interest in the office of the presidency. A disastrous foray in 1988, flaring out before New Hampshire, was as far as he went in that direction. He had no politicians' sleazy graces, and was proud of that. The brusque attitude and tone had been instilled at West Point, together with the gimlet stare and the preference for dealing with America's adversaries, whether Cubans, Palestinians or leftist Nicaraguans. with a bombing run or an invasion. His duties at the White House, on Henry Kissinger's National Security Council and for Nixon, had been carried out while still under military orders and earned him a dizzy ascent, from colonel to four-star general in four years. His scar tissue came from battles both actual and political.

As a soldier, he believed in certain rules of behaviour. First, the need to keep secrets and not go leaking to the newspapers, for soldiers died when secrets came into the enemy's possession. And second, to follow the chain of command. Foreign policy in particular required a single source, one clear voice speaking for America. The greatest danger in those cold-war years was to show the Soviet enemy a soft, distinction of the control of t

globe, just as the Chinese and North Koreans had driven through the "foolishly divided" front at the Yalu river in 1950, leaving 12,000 Americans dead or wounded in the ice, when he was a young lieutenant.

The greatest frustration of hip politics, for General Haig, was lack of that one comment of the present frustration of the politics, for General Haig, was lack of that one commiss, with the House, besieged by enemies, and the properties of the present frustration of the present frustration

The ghost ship

He went to Reagan's White House, fresh from a five-year stift as NATO's supreme commander, with, he supposed, a guarantee from the ever penial president that he would be the spokesman on foreign policy ("I'll look to you, A!"). It lasted no longer than his first encounter with James Baker, Michael Deaver and Ed Meese, the president's staffers. Meese put the vital Haig directive for the organisation of foreign policy in his briefcase, where it staget.

There followed Haig explosions right and left over appointments, or statements of policy, which he had not authorised: fearsome times when the general turned purple, pounded the table and roared his displeasure. Tutf wars blazed with the Nsc and the Pentagon. Eighteen months of this, though punctuated by hard work on arms control and a valiant bout of shuttle diplomacy, in 1982, to try to avert the Falklands war, were more than enough.

The moment for which he was best remembered came on March 30th 3981, when Reagan was shot. Sweating and intense, his hands shaking, General Haig declared to the press that "As of now, I am in control here, in the White House, pending return of the vice-president." Hedged words; but he never lived them down.

Some thought he had become unmanageable, and he could give that appearance. But the nub of the matter, as he described it in a calmly lyrical passage of his book, "Caveat", was this:

The [Reagan] White House was as mysterious as a ghost ship, you heard the creak of the rigging and the groan of the timbers and sometimes even glimpsed the crew on deck. But which of the crew had the helm?...It was impossible to know...

If someone evidently had the helm, General Haig saluted. If not, rather than let drift and uncertaintly give any comfort to America's enemies, he had acquired the habit of seizing the wheel himself.

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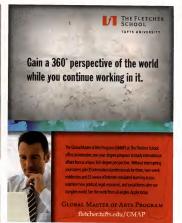
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An Expression of Interest (EOI) must include a company profile and relevant experience (maximum two pages) and emailed to: igimenez@ unicef.org by 9 March 2010. UNICEF will evaluate and pre-qualify companies who will be invited to the planned tender. EOIs will not be individually acknowledged. Terms of Reference will be provided to companies who are invited to submit proposals.

Please note that this is NOT an Invitation to Bid or a Request for Proposal for Services. Responding to this REOI does not guarantee an invitation to submit a proposal

unite for children



The Economist February 27th 2010

## **Economic and financial indicators**

#### **Overview**

Ben Bernanke, the head of America's Federal Reserve, said in testimony to Congress on February 24th that the Fed's benchmark interest rate was likely to "remain exceptionally low for an extended period", but that the Fed would "at some point need to begin to tighten monetary conditions" in order to stave off inflationary pressures.

Industrial orders in the euro area rose by 9.5% in the year to the end of December. The increase in December was 0.8%, below the 2.7% rise in November. An index of euro-area manufacturing activity, based on surveys of purchasing managers, rose in February to 54.1, its highest level since August 2007, A reading above 50 indicates expansion.

Sales of new houses in America fell by 11% in January to the lowest level since records began in 1963, according to the Department of Commerce. The median price of a new home fell by 5.6% from December.

Malaysia's GDP in the final quarter of 2009 rose by 4.5% compared with the same period a year earlier. Despite this late flourish, the economy shrank by 1.7% in 2009 as a whole.

Inflation in South Africa edged down to 6.2% in January from 6.3% in December, leaving it just outside the central bank's target range of 3-6%. Prices rose by 0.3% between December and January.

Hong Kong's GDP rose by a seasonallyadjusted 2,3% in the final three months of 2009, following an increase of 0.4% in the previous quarter.

Indicators for more countries, as well as additional series, can be found at Economist.com/indicators

FDIC-insured "problem" institutions The American economy and Wall Street bonuses may be growing again, but many of America's commercial banks are still fragile, According to the Federal Deposit Insurance Corporation, which is on the hook for the money people have in failed banks, 140 banks went under last year, more than four times as many as collapsed in the entire eight-year period from 2000-2007. Forty-five banks failed in the last quarter of 2009 alone. The agency reckons that another 702 banks, with total assets worth \$402.8 billion, are in trouble but have not yet failed. The number of these "problem institutions" is more than nine times as great as in 2007; the total assets held by such troubled banks is more than 18 times as great.

### Output, prices and jobs

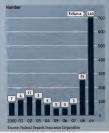
% change on year ago

	Gross domestic product			production	Consumer prices			Unemployment	
	latest	qtr*	2009†	2010†	latest	latest	year ago	2009†	rate <sup>‡</sup> , %
United States	+0.1 04	+5.7	-2.5	+3.0	+0.9 Jan	+2.6 Jan	mil	-0.4	9.7 Jan
Japan	-0.4 04	+4.6	-5.3	+1.5	+5.3 Dec	-1.7 Dec	+0.4	-1.4	5.1 Dec
China	+10.7 Q4	na	+8.7	+9.6	+18.5 Dec	+1.5 Jan	+1.0	-0.6	10.2 2009
Britain	-3.2 04	+0.4	-4.7	+1.4	-3.6 Dec	+3.5 Jan§	+3.0	+2.2	7.8 Decff
Canada	-3.2 g3	+0.4	-2.5	+2.7	-9.0 Nov	+1.9 Jan	+1.1	+0.3	8.3 Jan
Euro area	-2.1 04	+0.4	-3.9	+1.4	-5.0 Dec	+1.0 Jan	+1.1	+0.3	10.0 Dec
Austria	-1.8 Q4	+1.5	-3.5	+1.2	-4.6 Dec	+1.1 Dec	+1.4	+0.6	5.4 Dec
8elgium	-0.8 04	+1.2	-3.1	+1.3	-4.0 Nov	+0.6 Jan	+2.3	-0.1	12.1 Dec##
France	-0.3 04	+2.4	-2.2	+1.6	-2.3 Dec	+1.1 Jan	+0.7	+0.1	10.0 Dec
Germany	-2.4 04	nil	-4.9	+1.7	-6.7 0ec	+0.8 Jan	+0.9	+0.4	8.2 Feb
Greece	-2.6 Q4	-3.1	-2.7	-0.9	-7.6 Dec	+2.4 Jan	+1.8	+1.2	10.6 Nov
Italy	-2.8 Q4	-0.9	-4.8	+1.1	-5.6 Dec	+1.3 Jan	+1.6	+0.8	7.8 03
Netherlands	-2.2 04	+1.0	-4.0	+1.2	+0.8 0ec	+0.8 Jan	+1.9	+1.2	5.6 Janff
Spain	-3.1 04	-0.4	-3.6	-0.1	-1.5 Dec	+1.0 Jan	+0.8	-0.3	19.5 0ec
Czech Republi		na	-4.3	+0.9	+1.8 Dec	+0.7 Jan	+2.2	+1.0	9.8 Jan
Denmark	-5.2 03	+2.6	-4.9	+1.2	-19.2 Dec	+2.0 Jan	+1.8	+1.4	4.3 Dec
Hungary	-4.0 04	-1.6	-6.3	-0.7	-1.4 Dec	+6.4 Jan	+3.1	+4.2	10.5 Dec <sup>††</sup>
Norway	-1.2 04	+0.4	-1.0	+1.8	-6.5 Dec	+2.5 Jan	+2.2	+2.1	3.3 Dec <sup>§§</sup>
Poland	+1.7 03	na	+1.7	+2.5	+8.5 Jan	+3.6 Jan	+2.8	+3.5	12.7 Jan##
Russia	-8.9 03	na	-7.9	+3.5	+7.8 Jan	+8.0 Jan	+13.4	+11.7	9.2 Jan##
Sweden	-5.0 q3	+0.7	-4.4	+2.1	-5.8 Dec	+0.6 Jan	+1.3	-0.3	9.4 Jan##
Switzerland	-1.5 03	+1.2	-1.5	+1.3	-6.7 Q3	+1.0 Jan	+0.1	-0.5	4.1 3an
Turkey	-3.3 03	na	-5.9	+3.4	+25.2 Dec	+8.2 J≥n	+9.5	+6.3	13.1 Nov##
Australia	+0.6 03	+0.7	+0.9	+2.9	-3.8 03	+2.1 04	+3.7	+1.8	5.3 Jan
Hong Kong	+2.6 Q4	+9.5	-3.5	+4.6	-8,6 Q3	+1.0 Jan	+3.1	+0.5	4.9 Jan <sup>††</sup>
India	+7.9 03	na	+6.5	+7.3	+16.8 Dec	+15.1 Dec	+9.6	+10.7	10.7 2009
Indonesia	+5.4 04	na	+4.6	+5.5	+5.5 Dec	+3.7 Jan	+9.2	+4.8	8.1 Feb
Malaysia	+4.5 04	na	-2.4	+3.7	+8.9 Dec	+1.3 Jan	+3.9	+0.6	3.6 03
Pakistan	+2.0 2009		+3.7	+2.9	+0.3 Nov	+13.7 Jan	+20.5	+13.6	5.2 2008
Singapore	+3.5 04	-6.8	-2.1	+4.9	+14.4 Dec	+0.2 Jan	+4.3	+0.2	2.1 04
South Korea	+6.0 04	+0.7	+0.1	+5.1	+33.9 Dec	+3.1 Jan	+3.7	+2.8	4.8 Jan
Taiwan	+9.2 04	na na	-3.5	+4.2	+47.3 Dec	+0.3 Jan	+1.5	-0.8	5.7 Jan
Thailand	+5.8 04	+15.3	-3.2	+3.2	+35.7 Dec	+4.1 Jan	-0.4	-0.9	1.1 Qct
Argentina	-0.3 gs	+10.2	+0.7	+3.1	+9.7 Nov	+8.2 Jan	+6.8	+6.3	8.4 Q4 <sup>‡‡</sup>
Argentina Brazil	-0.3 q3 -1.2 q3	+5.1	-0.3	+5.0	+9.7 Nov +18.9 Dec	+8.2 Jan +4.6 Jan	+5.8	+4.9	6.8 Dec##
Chile	-1.2 Q3 -1.6 Q3	+4.6	-0.9	+4.8	-0.3 Dec	-1.3 Jan	+6.3	+1.5	8.6 Dec1111
Colombia					+2.0 Nov	+2.1 Jan	+7.2	+4.2	11.3 Dec##
	-0.2 03	+0.9	+0.1	+2.5					4.8 0ec##
Mexico	-2.3 04	+8.4	-6.8	+3.4	+1.6 Dec -14.3 Sep	+4.5 Jan	+6.3	+5.3	7.4 04##
Venezuela	4.5 03	na	-2.9	-4.8		+26.9 Jan			
Egypt	+4.9 03	na	+4.7	+5.4	+6.7 03	+13.6 Jan	+14.4	+11.8	9.4 04#
Israel	+1.9 04	+4.4	+0.5	+3.2	-2.5 Dec	+3.8 Jan	+3.3	+3.3	7.8 03
Saudi Arabia	+4.4 2008		+0.2	+3.3	na	+4.2 Dec	+9.0	+5.0	na
South Africa	-1.4 04	+3.2	-1.8	+2.8	+3.2 Dec	+6.2 Jan	+8.1	+7.1	24.3 Dec <sup>‡‡</sup>

Industrial

rate 3.7 in January, ""Year ending June. \* Latest three months. \* Not seasonally adjusted. \* Centred 3-month average

\*% change on previous quarter, annual rate. The Economist poll or Economist Intelligence Unit estimate/forecast. \*National definitions. \*RPI inflation



			% change on		
	Feb 16th	Feb 23rd*	one month	one	
Dollar index		,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,			
Allitems	211.6	211.8	-1.0	+40.7	
Food	207.9	202.5	-2.7	+13.2	
Industrials					
All	216.5	223.8	+1.0	+96.	
Nfa†	192.4	198.0	+4.8	+84.8	
Metals	229.6	237.9	-0.6	+102.3	
Sterling index	(				
Allitems	204.7	207.9	+3.5	+31.	
Euro index					
Allitems	142.8	144.3	+2.6	+32.2	
Gold					
\$ per oz	1101.00	1105.00	+0.6	+13.4	
West Texas In	termediate				
\$ per barrel	77.15	78.71	+5.4	+96.5	

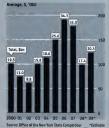
Trade, exchange rates, budget balances and interest rates

	Trade balance* latest 12 months, \$bn	Current-account balance		Currency units, per \$		Budget balance	Interest rates, %	
		latest 12 months, \$bn	% of GDP 2009†	Feb 24th	vear ago	% of GDP 2009†	3-month latest	10-year gov' bonds, lates
United States	-517.0 Dec	-465,3 03	-3.0	-	year ago	-9.9	0.16	3.69
Japan	+43.5 Dec	+141.6 Dec	+2.8	89.9	97.0	-7.4	0.30	1.32
China	+173.0 Jan	+364.4 02	+5.8	6.83	6.84	-3.0	1.94	3.44
Britain	-128.1 Dec	-28.2 03	-1.6	0.65	0.70	-12.2	0.65	4.09
Canada	-4,4 Dec	-34.8 q3	-2.8	1.05	1.26	-3.1	0.17	3.60
Euro area	+33.1 Dec	-76.2 Dec	-0.7	0.73	0.79	-6.3	0.66	3.14
Austria	-5.1 Nov	+7.5 03	+0.9	0.73	0.79	-3.5	0.66	3.57
Belgium	+19.2 Nov	-3.2 Sep	-0.1	0.73	0.79	-6.0	0.67	3.66
France	-59.1 Dec	-52.6 Dec	-2.1	0.73	0.79	-7.9	0.66	3.33
Germany	+191,2 Dec	+168.9 Dec	+4.2	0.73	0.79	-3.2	0.66	3.13
Greece	-42.9 Nov	-36.8 Nov	-12.4	0.73	0.79	-13.0	0.66	6.50
Italy	-5.6 Dec	-74.1 Nov	-2.9	0.73	0.79	-5.0	0.66	4.01
Netherlands	+47.4 Dec	+34.8 03	+5.5	0.73	0.79	-5.1	0.66	3.26
Spain	-73.3 Nov	-78.2 Nov	-5.6	0.73	0.79	-11.4	0.66	3.82
Czech Republi		-1.5 Dec	-1.4	19.0	22.4	-6.9		
Denmark	+12.7 Dec						1.48	4.17
		+12.2 Dec	+2.3	5.47	5.87	-3.0	1.45	3.42
Hungary	+6.4 Dec	-2.1 qs	-1.5	199	237	-4.0	5.78	7.64
	+53.2 Jun	+58.4 03	+14.7	5.91	6.90	10.9	2.32	3.67
Poland	-4.8 Dec	-7.2 Dec	-1.5	2.93	3.70	-2.0	4.15	6.03
Russia	+112.1 Dec	+47.5 04	+3.9	29.9	35.8	-6.0	8.50	7.21
Sweden	+11.9 Dec	+33.0 g3	+7.5	7.18	8.96	-2.6	0.19	3.20
Switzerland	+19.4 Jan	+42.4 03	+7.7	1.08	1.17	-0.4	0.25	1.81
Turkey	-38.6 Dec	-13.9 Dec	-2.0	1.55	1.70	-5.4	7.41	5.25‡
Australia	-7.1 Dec	-32.7 Q3	-3.8	1.12	1.55	-3.8	4.15	5.61
Hong Kong	-28.9 Dec	+24.7 03	+11.3	7.77	7.75	-2.3	0.13	2.55
India	-78.4 Dec	-31.5 q3	-0.7	46.3	49.9	-8.0	3.92	7.75
Indonesia	+19.8 Dec	+6.9 Q3	+1.6	9,305	11,945	-1.5	7.03	5.58‡
Malaysia	+33.6 Dec	+32.3 q3	+15.5	3.40	3.67	-7.7	2.25	1.50‡
Pakistan	-14.6 Jan	-5.5 q3	-1.4	85.1	79.9	-5.2	12.33	10.72‡
Singapore	+25.8 Jan	+20.9 q3	+12.3	1.41	1.53	-1.1	0.50	2.61
South Korea	+43.7 Jan	+42.7 Dec	+5.3	1,153	1,516	-4.0	2.88	5.10
Taiwan	+18.8 Jan	+42.6 04	+7.6	32.1	34.7	-5.1	0.90	1.26
Thailand	+19.4 Dec	+20.4 Dec	+6.7	33.1	35.8	-5.6	1.35	3.23
Argentina	+17.2 Jan	+8.5 q3	+3.2	3.86	3.55	-0.6	12.06	na
Brazil	+25.7 Jan	-25.4 Jan	-1.6	1.82	2.38	-3.4	8.65	6.16‡
Chile	+14.6 Jan	+0.8 03	+2.2	529	603	-3.6	0.60	2.10‡
Colombia	+1.5 Nov	-6.1 Q3	-2.4	1,932	2,580	-2.8	3.96	5.28‡
Mexico	-3.5 Jan	-11.2 03	-0.5	12.9	14.9	-2.3	4,49	7.53
Venezuela	+6.7 03	-2.1 Q3	+3.5	6.505	5.705	-6.1	14.50	6.55‡
Egypt	-25,4 03	-4.9 Q3	-1.3	5.49	5.61	-6.6	9.63	2.09‡
Israel	-5.3 Jan	+5.2 03	+3.7	3.77	4.20	-5.1	1.32	3.69
Saudi Arabia	+212.0 2008	+134.0 2008	+6.2	3.75	3.75	-3.2	0.77	3.09
South Africa	-1.8 Dec	-12.0 03	-4.8	7.76	9,99	-6.0	7.18	8.91
Journ Allica	1.0 000	-14.0 (3	-4.0	7.70	2,99	-0.0	/.10	6.91

\*Herchandise trade only. †The Economist poll or Economist Intelligence Unit estimate. †Dollar-denominated bonds. \$Unofficial exchange rate.

#### Wall Street bonuses

Bonuses on Wall Street are bouncing back. even though its banks may only be alive thanks to government support. New York City's financial industry paid its employees bonuses of \$20.3 billion last year, according to figures released by the New York State Comptroller's office. The average Wall Street employee took home nearly \$124,000 on top of his base salary last year-a quarter more than in 2008 but still less than the average bonus in 2006, when the figure peaked at a staggering \$191,360 per head. In 2008, when the industry lost a record \$42.6 billion, it paid out \$17.4 billion in bonuses. Total compensation on Wall Street may have exceeded \$55 billion in 2009, which would be a new record.



#### Markets

		% change on	
			Dec 31st 2008
	Index	опе	in local in \$
	Feb 24th	week	currency terms
United States (DJIA)	10,374.2	+0.6	+18.2 +18.2
United States (S&P 500)	1,105.2	+0.5	+22.4 +22.4
United States (NAScomp)	2,235.9	+0.4	+41.8 +41.8
Japan (Nikkei 225)	10,198.8	-1.0	+15.1 +16.0
Japan (Topix)	895.7	-1.0	+4.2 +5.1
China (SSEA)	3,168.8	+0.1	+65.8 +65.7
China (SSE8, \$ terms)	251.4	+0.4	+126.8 +126.7
8ritain (FTSE 100)	5,342.9	+1.3	+20.5 +29.5
Canada (S&PTSX)	11,521.8	-1.0	+28.2 +50.3
Euro area (FTSE Euro 100)	849.9	-0.9	+13.9 +11.5
Euro area (DJ STOXX 50)	2,734.9	-1.0	
Austria (ATX)	2,498.2		
		-1.5	
8elgium (8el 20)	2,514.9	+0.1	+31.8 +29.0
France (CAC 40)	3,715.7	-0.3	+15.5 +13.0
Germany (DAX)*	5,615.5	-0.6	+16.7 +14.3
Greece (Athex Comp)	1,926.8	+3.7	+7.9 +5.6
Italy (FTSE/MI8)	21,346.3	-1.4	+9.7 +7.4
Netherlands (AEX)	320.9	-0.7	+30.5 +27.7
Spain (Madrid SE)	1,065.1	-2.6	+9.1 +6.8
Czech Republic (PX)	1,138.0	-1.3	+32.6 +34.6
Denmark (OMXC8)	336.0	+0.2	+48.6 +45.4
Hungary (8UX)	20,623.7	-4.8	+68.5 +62.2
Norway (OSEAX)	399.7	+0.9	+47.9 +75.3
Poland (WIG)	38,447.2	-1.1	+41.2 +42.8
Russia (RTS, \$ terms)	1,401.5	-1.4	+117.5 +121.8
Sweden (OMXS30)	944.3	+0.1	+42.6 +57.0
Switzerland (SMI)	6,688.0	+1.8	+20.8 +19.6
Turkey (ISE)	49,659.6	-6.8	+84.9 +84.3
Australia (All Ord.)			
	4,665.9	-0.4	+27.5 +61.0
Hong Kong (Hang Seng)	20,467.7	-0.3	+42.3 +42.0
India (8SE)	16,256.0	-1.1	+68.5 +77.2
Indonesia (JSX)	2,579.4	-0.1	+90.3 +122.9
Malaysia (KLSE)	1,270.8	+0.9	+44.9 +47.3
Pakistan (KSE)	9,686.2	-1.8	+65.2 +53.6
Singapore (STI)	2,762.1	-1.1	+56.8 +60.4
South Korea (KOSPI)	1,612.8	-0.9	+43.4 +56.6
Taiwan (TWI)	7,529.7	+1.2	+64.0 +67.8
Thailand (SET)	715.2	+2.5	+58.9 +67.2
Argentina (MERV)	2,292.2	-1.2	+112.3 +90.0
8razil (8VSP)	65,794.0	-2.2	+75.2 +124.6
Chile (IGPA)	17,740.9	-0.8	+56.7 +88.7
Colombia (IG8C)	11,797.7	+2.2	+56.0 +81.6
Mexico (IPC)	31,788.5	-0.3	+42.0 +53.1
Venezuela (I8C)	57,005.9	-0.4	+62.5 +74.9
Egypt (Case 30)	6,608.2	-5.2	
Irrael (TA-100)		-5.2	
Israel (TA-100)	1,104.8	+0.4	+95.9 +96.2
Saudi Arabia (Tadawul)	6,465.7	+0.8	+34.6 +34.7
South Africa (JSE AS)	26,933.1	-1.0	+25.2 +49.1
Europe (FTSEurofirst 300)		-0.1	+21.8 +19.3
World, dev'd (MSCI)	1,133.2	-0.1	+23.1 +23.1
Emerging markets (MSCI)	933.2	-1.3	+64.6 +64.6
World, all (MSCI)	289.4	-0.2	+27.1 +27.1
World bonds (Citigroup)	828.2	+0.3	+2.3 +2.3
EM8I+ (JPMorgan)	495.2	+0.3	+26.5 +26.5
Hedge funds (HFRX)†	1,159.6	+0.1	+13.6 +13.6
Volatility, US (VIX)	20.3	21.7	40.0 (levels)
CDSs, Eur (iTRAXX)‡	85.3	-0.7	-57.8 -58.7
CDSs, N Am (CDX)‡	120.4	-5.9	-48.4 -48.4
Carbon trading (EU ETS) €	13.1	-2.0	-21.5 -23.1
	ALCOHOLD		
*Total return Index. TFeb 23rd	L #Credit-defau	alt-swap s	preads, basis

points. Sources: National statistics offices, central banks and stock exchanges; Thomson Reuters; WM/ Reuters; JFMorgan Chase; Bank Leumi le-Israel; CBDE; CMIE; Danske Bank: EEX; HKMA; Markit; Standard Bank

Indicators for more countries, as well as additional series, can be found at Economist.com/indicators



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Source: Transaction Processing Performance Council, www.tpc.org as of 11/3/09.

12-Node SPARC Enterprise TS440 server cluster, 7,646,486 tpmC, \$2,36/tpmC, available 3/19/10.

IBM Power 595 Server Model 9119-F14A, 6,085,166 tpmC, \$2,81/tpmC, available 12/10/08.



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Takeshima is the epitome of the wellrounded establishment figure. An economics graduate from the prestigious University of Tokyo, he has headed the tax agency and since 2002 has run Japan's Fair Trade Commission. Mr Takeshima has made a good name for himself as a trustbuster. But for years he has resisted efforts to allow firms to appeal in court against punishments for antitrust violations. In effect, the commission acts as prosecutor

Within a few months, Mr Kondo had won cabinet support for changing the antitrust law and curbing Mr Takeshima's power. He hopes an amended law will be approved in the current session of the Diet,

and judge. As Mr Kondo notes wryly: "It's

an antitrust authority, but it keeps all the

authority to itself."

introductory offer for new US subscribers only. Sawings are based off the \$6.99 newsstand price. Washington DC reside add local cales tay. Please allow two weeks for delivery of first issue. Offer ends June 30, 2010. Industry (METI), he has six policy areas to

oversee, which range from global warming to the troubles of Toyota, the carmaker. In addition, he helped draw up the government's ten-year economic-growth strategy. released in December.

He says his workload (from 7am to 11pm, he groans) is made heavier by the shortage of DPJ politicians appointed to government posts: atop a civil service of 290,000, there are just 63 DPI officials in central-government positions. It is so easy to get bogged down in day-to-day administrative work that there is little time for strategic policymaking. This is especially true when the Diet is sitting; government officials have to attend every day.

Mr Kondo's experience will resonate in other corners of Kasumigaseki, Japan's

itehall in central Tokyo that is the seat he Japanese bureaucracy and whose ne literally describes how many Japa-

e think of it-a Fortress of Fog. The DPJ came to power in September mising to break the disreputable trianlinking the Liberal Democratic Party P), the bureaucracy and big business. striangle helped keep the LDP in power almost 55 years. In its crassest form, in booming 1980s, the model plumbed depths of corruption and bad goverce. Business lobbied for contracts and port by pouring money into the party's ers and the mandarins' pockets. The 1 won the party elections and feath-I the bureaucrats' nests. With the LDP's sing, the mandarins made policy, to be ber-stamped by the cabinet. Hence, the l service wielded enormous power. vever, it also squandered much of the stige it had enjoyed for upholding a it of public service that dated all the way back to the glory days of the samurai

The DPJ's pledge on taking office was to make policy decisions itself and ensure bureaucrats acted on those. In policymaking ministries such as METI, the Ministry of Finance and the Ministry of Foreign Affairs, civil servants say that by and large the transition has occurred smoothly and information has flowed easily between elected and non-elected officials.

era in the 17th-19th centuries.

Things are different, however, in parts of government closely associated with the LDP's former largesse, such as the agriculture, transport, and construction ministries. When Seiji Maehara, the transport minister, forced Japan Airlines (JAL), the national flag-carrier, into a court-administered bankruptcy, he reportedly had to >> Presidential ambitions in Peru

### Political satire

LIMA

Jaime Bayly's breath of fresh air

WHEN it comes to Peruvian writers where the presidency, history threatens to repeat itself as farce. In 1990 Mario Wagas Lisos, one of Latin America's foremost novelists, ennaged by a government attempt to nationalise his country's banks, cast aside his pen and threw himmel that the particles. Opinion polls at first submide him a shoo-in for the presidency, or Fortunately for the cause of literature, if not for Peruvian public life, he was defeated by Alberto Petulimori.

This month Jaime Bayly, a writer morous novels of tather lesser statur is also a television talk-show hos launched his candidacy for a presid election due in April 20m. Like Mr¹ Llosa, Mr Bayly is a liberal. But he is yo irreverent one. Mop haired and pled, he talks freely about his bisec the says that at the moment he rwomen but that this might once change; his taste for mood-alterin that are apparently damaging his liby past cocaine habit and his contifondness for an occasional joint. His ison programmes, broadcast in Colo

and Peru (he previously worked in Miami), mercilessly mock Venezuela's leftist president, Hugo Chávez.

His policies are just as politically incorcett He favours legalising abortion and same-sex marriages. He would eliminate centuries old privileges enjoyed by the Catholic church. He wants to abolish the armed forces and spend their budget on improving state schools. In another constitutional proposal—this one smacks of populism—he would cut the number of lawmakers in Peru's single-chamber Congress from 120 to just 25. He defies Peruvian nationalism by saying that the government should not have filed a claim against neighbouring Chile over their maritime-border dispute, because tivill not win.

A survey this month by Ipsos-APOYO, a polling firm, shows there is no clear favourite in a crowded field of presidential

Visit us online at Economist.com Canada's Mohawks

# Get out of our canoe

OTTAW

When a Canadian is not a Canadian

THE dozen chiefs who make up the Mohawk Council of Rahnawake expected criticism when they began presenting eviction notices this month to 25 non-natives living on their 13,000-acre (5,260-hectare) reserve just south of Montreal. Thohoped Canadians would understand their desire to protect a threatened language actual culture, and refain from interfering in internal Mohawk affairs. But many saw the action as a racis and illegal denial of Cana-

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#### In ever-closer union, divided we stand

It's a tough life being la Latin American president nowadays, with so many summits to go to. The latest, involving 32 countries of Latin American and the Caribbean, took place this week in Playa del Carmen, a resort on Mexico's Caribbean coast. The leaders agreed to set up a permanent regional body. That seems sensible. But there is a subtext: despire protestations to the contrary, the new body will be a rival to the Organisation of American States, which includes the United States and Canada, but not Cuba. It also looks like a Mexican riposte to the Brazilian-inspired South American Union. And all this excellating summitty takes place as Latin American is more divided than ever, between its liberal democracies on the one hand and Wenzuela and its allies on the other, with Brazil triving to appear over the divide. Time, certains, for fewer but better summits.

officially registered natives. Yet there has also been a long history of intermarriage and adoption of non-natives. "Everyone in the community has mixed ancestry," says Matthieu Sossoyan, an anthropologist.

Canada's minister of Indian affairs admits the evictions make him "uncomfortable" but says he can do nothing because First Nations have the right to say who lives on reserves. The chiefs say that rather than the Charter of Rights and Freedoms, their relations with non-natives are governed by the Two-Row Wampum Teaty, agreed with Dutch traders in the 7th century. (The wampum, or beaded belt, showed two parallel lines on a pale background.) This called for mutual non-interference. "We stay in our canoe and you steery ours," says Mr Delaronde.

## Charlemagne | Europe's bear problem

#### The trouble with the European Union's attempts to woo Russia





about his country's need for modernisation, including greater respect for the rule of law. The "underlying assumption", writes Katinka Barysch in a new paper for the Centre for European Reform, a London-based think-tank, is that EU capital, technology and training might make Russia "more Western-oriented, open and easier to deal with."

Alas, everyone is talking at cross purposes. The EU hopes that modernisation means aligning Russia with the union's values and norms. For Russian officials, says Dmitri Trenin of the Carnegie Moscow Centre, modernisation means "Russia using its resources to buy assets in Europe, and Europe supplying Russia with technology." In EU circles, there is much cheery talk of soft power and "people to people contacts", including Russian bil-

to buy homes, educate chilloot. This may be wishful s is not the same as embraclessons in ethics from their and acerbic ambassador to

lues really are. He offers an

a multi-confessional, multisuch a society "for 1,000 to learn from the EU, he says,

pean Union equals Europe".

e? Funnily enough, the an-, Start with intra-EU solidarow than for a long time, with eat imports and Poland unration. Mr Putin has invited , to ceremonies to mark the acre, when the Soviets murelations changed at an EUsenior European politician. , led by Germany's Angela at ban, "Russia realised it had

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eally does enjoy soft power, issia took a relaxed view of saw Pact countries, says Mr out NATO"; and hostility to

ons," he says.

gatherings, topical pieties are observed. The fashion now is to fret about "global" governance, covering everything from protectionism to migration to climate change. In Russia the talk was of Russia: how it can get richer, how it can keep pumping oil and gas, how it can modernise its economy. A timid question about climate change prompted derision and talk of sub-zero temperatures outside. Emerging into the chilly streets, Charlemagne was hooted by hulking four-wheel drives. It felt like Texas, with snow.

What explains Europe's double standards over America and Russia? Partly, it is hypocrisy. The EU is Russia's biggest trade partner; in 2008, Russia was the EU's second market for exports. Partly, it is Russia's skill at playing on divisions within the block. But some of Europe's tolerance of Russia goes beyond this. Despite many disappointments and shocks, such as the 2008 war with Georgia, plenty of EU types still dream of transforming Russia. They once talked of Russia as a "strategic partner". The new buzz phrase is a "modernisation partnership". This vague idea is the EU's response to encouraging noises from Mr Medvedev

Nowadays, diplomats detect a chill in Russian attitudes to EU projects in its backyard, especially the "eastern partnership" with Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. This impression is bolstered by Alexander Grushko, a deputy foreign minister. Russia wants a say before any "rapprochement" between the EU and countries like Ukraine, he says. Projects such as visa liberalisation or energy links must not make former Soviet republics "choose" between the EU and Russia. "The EU should not move ahead with projects in the eastern partnership that are

NATO was about America, not about Europe.

not also the fruit of Russia-EU dialogue." Europe should take such hostility as a compliment. Bringing ex-Soviet republics into a rules-based system would challenge the bleakness of Putinism. It will be hard. But Europe's values are a source of its strengths. To play to them, Europe must be clearereved about who shares its values-and who does not.

Economist.com/blogs/charlemagne

## Wild things

THE HAGUE The far right promises to do disturbingly well on June 9th

OVERNMENT crises in the Nether-Glands tend to be played out with little international publicity. But when the Dutch coalition cabinet fell on February 20th it was done messily and in publicand the ripples were felt as far away as Afghanistan, drawing the world's attention.

The Labour Party quit the government because it could not agree with the Christian Democrats to extend the service of 2,000 Dutch troops in Afghanistan's Uruz-

gan province (see page 48). It in 2007 the cabinet agreed to in 2010. Labour insisted on 8 despite a written request fr an extension under a chan Parliamentary debate turns with accusations of bad around on live television. Th than a hint of personal irrita Wouter Bos, the Labour lead ter Balkenende, the Christia prime minister.

Labour's decision was gu political calculations. With plummeting, the party may that blowing up a governmen popular Afghan commitmer well with voters. Its ratings week. But polls suggest tha election on June 9th, Labour the fifth-biggest party in dominated by the right and t

In truth, the established been struggling ever since th tuyn exploded on to the si Support for the biggest far-1 day, Geert Wilders's Freedo shot up in recent months. polls, if the election were would be the second-largest party, just two

Mr Wilders is best known for his virulent anti-Islamic rhetoric. But his party has been broadening its policies. Mr Wilders not only champions limits on immigration, especially from Muslim countries, but also promises to cut red tape for small businesses, reduce taxes and improve care for the elderly. He wants a halt to European Union enlargement, including a flat no to Turkish entry. He is also opposed to the Dutch deployment in Uruzgan.

seats short of the Christian Democrats.

Mr Wilders casts a long shadow over Dutch politics. The other parties detest him personally, but have been courting his voters. Several prominent Labour politicians have issued a call to all parties not to allow Mr Wilders to influence the next

France's Socialist Party

## Fresh troubles

PARIS A scandal in the south-west shows up the metropolitan party's weaknesses

TIS detractors call him an incorrigible Hracist with a "dictator-like personality". One likens him to Mussolini, His supporters insist he is brave, authentic and in tune with plain-talking local attitudes. Georges Frêche, president of Languedoc-Roussillon, is an old-style Socialist baron. But his uncanny ability to offend everybody, from black footballers to Jews, has pitched him into battle against his party bosses-and reawakened anti-Parisianism on the left. Mr Frêche has a record of gaffes. Three years ago, he was expelled by the party

trouble for Mr Frêche. Yet far from respecting the party's bid for the moral high ground, locals have swung behind him. The man who spent 27 years as mayor of Montpellier tops the polls, with 31%, according to Opinion Way, Ms Mandroux comes sixth, with just 6%. In a run-off vote, Mr Frêche should triumph.

All this confirms that Socialists struggle to combine regional power with national credibility. Local distrust of national leaders runs deep. The Frêche affair may boost Ms Aubry's standing in Paris, but not in the provinces, where

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"anti-alcohol, anti-smoking, anti-racist, homosexual, black, white, yellow, red, Jewish, Muslim, Orthodox, Japanese, garden gnomes, pit bull, anti-harmful sentiment, anti-anger, anti-vulgarity, anti-everything that is not acceptable."

All this might have spelt political

government. But this could backfire, Labour's own immigration policy is moving towards that of Mr Wilders, Calls for a cordon sanitaire may not go down well with the 10% of voters who are foreign-born.

The polls suggest that post-election coalition-building will be tricky. At present they indicate that no three parties will be able to command a majority. This points either to a large, fractious coalition or to a mi-



Frêche preparing another gaffe

nority government. Neither promises stability. Many believe that Mr Wilders will call the shots even if his party is excluded from the cabinet.

The local elections on March 3rd will give a first hint of the parties' strengths, Mr Wilders's party is running only in two municipalities, partly because of a lack of experienced candidates. But that may not stop it doing well in June. **=**